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„Market entry strategies of international companies: The expansion of Starbucks and Slovakia as the next potential market“

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# Table of Contents

List of figures .................................................................................................................. 3

1 Introduction .................................................................................................................. 4

2 Internationalization ..................................................................................................... 5
   2.1 The nine strategic windows .................................................................................. 5
   2.2 Internationalization motives .............................................................................. 9

3 Entry strategies ........................................................................................................... 13
   3.1 Location ................................................................................................................ 14
      3.1.1 Four dimensions of distance ....................................................................... 15
      3.1.2 Country attractiveness ............................................................................... 19
   3.2 Entry objectives ................................................................................................... 20
   3.3 Timing of entry ..................................................................................................... 21
   3.4 Mode of entry ...................................................................................................... 23
      3.4.1 Factors influencing entry mode decisions .................................................. 23
      3.4.2 Entry modes ............................................................................................... 26

4 Market expansion strategies ....................................................................................... 42

5 Starbucks ..................................................................................................................... 43
   5.1 Internationalization and market expansion of Starbucks .................................. 44
   5.2 Entry Strategies of Starbucks ............................................................................. 47
      5.2.1 Segmentation of Starbucks ....................................................................... 47
      5.2.2 Entry Modes of Starbucks ....................................................................... 50
   5.3 Slovakia, the next potential market? ................................................................. 60
      5.3.1 The CAGE distance framework ................................................................ 60
      5.3.2 Country attractiveness analysis .................................................................. 62
      5.3.3 Entry objectives ......................................................................................... 67
      5.3.4 Timing of entry .......................................................................................... 68
      5.3.5 Proposed entry mode .................................................................................. 69

6 Conclusion ................................................................................................................... 71

7 Bibliography ................................................................................................................ 74

Abstract .......................................................................................................................... 82

Curriculum Vitae ............................................................................................................ 83
List of figures

Figure 1 The Nine Strategic Windows (Solberg, 1997, p. 11) ....................................................... 7
Figure 2 The CAGE Distance Framework (Ghemawat, 2001, p. 140) .......................................... 18
Figure 3 Entry Strategy Objectives (Lasserre, 2007, p. 193) .......................................................... 21
Figure 4 The Choice of Entry Modes: A Decision Model (Peng, 2009, p. 170) ......................... 27
Figure 5 Comparison of Technology Licensing, Trademark Licensing, and Franchising (Sanyal, 2001, p. 231) .......................................................................................... 34
Figure 6 Comparison of various entry modes (Lasserre, 2007, p. 209) ................................. 41
Figure 7 The incremental strategy (waterfall approach) and simultaneous strategy (the shower approach) (Hollensen, 2011, p. 278) ................................................................................. 43
Figure 8 Timeline of Starbucks’ market expansion (Starbucks Corporation, 2015) ............45-46
Figure 9 Starbucks’ net revenues for fiscal year 2014 by segment (Starbucks Corporation, 2014a, p. 2). ...................................................................................................................... 48
Figure 10 Company-operated and licensed store summary by segment for fiscal year 2014 (Starbucks Corporation, 2014a, p. 3) ......................................................................................... 51
Figure 11 Components of Starbucks’ net revenue for fiscal year 2014 (Starbucks Corporation, 2014a) ................................................................................................................................. 51
Figure 12 Number of company-operated stores by segment and country for fiscal year 2014 (Starbucks Corporation, 2014a) ............................................................................................... 53
Figure 13 Starbucks’ joint venture partners in Europe ................................................................. 55
Figure 14 Starbucks’ market coverage in Europe (Starbucks Corporation, 2015) ............... 60
1 Introduction

In today’s world of globalization when economies of different countries are intertwined more than ever and trade is facilitated by numerous treaties, many firms decide to expand into foreign markets for various reasons. Starbucks, being one of the most popular and largest chains of coffee shop companies, has opened up stores in more than 65 countries worldwide over the past years. Although it carries an image of an American firm with slightly premium prices, it serves customers in not only developed countries of the Western world but also in economically weaker countries of for example Eastern Europe. In spite of that Starbucks is not present in all European countries. Therefore the question is what attracts companies to expand to certain countries and not into others and what lies behind the market entry strategies of large companies? Before firms choose to internationalize, they need to examine their motives and objectives and consider their options regarding location, timing, entry modes and the way of expansion. This thesis discusses the different steps that form the decision of market entry strategies.

First, we will talk about the Theory of nine strategic windows as a method of company evaluation and how to determine whether a firm is ready to enter foreign markets by looking at its international involvement and the industry in which it operates. Then we will examine the different proactive and reactive motives, which drive companies to internationalization. When building an entry strategy, several questions have to be answered in order to determine all aspects of an entry plan. Managers need to ask themselves where they want or should expand, what they want to achieve there, when they want to enter the country, and how they want to enter it. This thesis will explain how to make the most efficient decision of a location by looking at the different types of distance between the home and the host country, also known as the CAGE distance framework, and what factors in terms of opportunities and risks to consider when evaluating the attractiveness of a country. We will also look at the various objectives that firms could follow once they make a country choice, as these need to be determined in order to set a strategy. Then the timing of the entry will be discussed and the individual phases of the market described. Once we have answers to all these questions, we will examine the different factors that influence the entry mode decisions and explore the numerous types of modes into more detail, while evaluating their advantages and disadvantages. Finally, the two approaches to international expansion, incremental and simultaneous, will be explored.
The theoretical part will be used for the analysis of Starbucks, where the company’s internationalization steps and the different approaches to expansion will be discussed. Furthermore, we will examine in more detail Starbucks’ types of entry modes, as well as the way in which they are used. A special focus will be given to Slovakia, as it is one of the few countries in Central Europe, where Starbucks has not yet established its presence. Therefore we will try to find the answer to the question whether Slovakia could be the next potential market for Starbucks by answering the four crucial strategy questions based on the theory at hand.

2 Internationalization

2.1 The nine strategic windows

Sooner or later many companies face the dilemma whether to expand internationally or stick to the domestic market. Solberg (1997) answers this question by providing a framework with nine possible strategic moves based on the industry globality and preparedness for internationalization (see Figure 1).

The dimension of industry globality is build upon industry structure, globalization drivers and market interdependence. Industry structure refers to the structure of competition, customers and suppliers, with entry barriers playing an important role in the determination of the structure type. Some of the most common entry barriers include economies of scale, product differentiation, high power of distribution channels and government interventions. Globalization drivers consist of international demand patterns, trade and investment policy and practice, and internationalization of customers and suppliers. These factors are evaluated on their degree of globalization and their influence on firms’ ability to reach a global market position by building entry barriers. Market interdependence is captured by intra-industry trade, international price sensitivity, and coordination of marketing campaigns by MNEs. (Solberg, 1997)

Based on the factors of industry globality, three types of industry structure can be identified: multidomestic or multicountry industry, potentially global industry, and global industry. Multidomestic or multicountry industry is characterized by fragmented competition dominated by national companies, low degree of globalization and generally low market interdependencies. Potentially global industry can either be a fragmented industry that exports to neighboring countries and which has seen some activities of multinational companies, or it
can be an industry with international competition in countries which are not the product suppliers themselves, i.e. third country industries such as defense. Both types of potentially global industry can become global if the globalization drivers emerge. The last category is the global industry, where the competition is limited to a small number of large global companies and the level of market interdependence is high. The advantage of large firms in a global industry (e.g. Boeing, Airbus) is their ability to quickly introduce innovations on a global scale. (Solberg, 1997)

The second dimension, preparedness for internationalization, is composed of international organizational capacity and market share in reference market. The first factor involves the ratio of international sales, market presence in key markets, and modes of operation, whereas the second factor depends on market share in major markets and headquarters interaction with distribution network. (Solberg, 1997)

The combination of all these factors leads to the determination of three categories of the preparedness of a firm for internationalization: immature, adolescent, and mature company. An immature company has a low overall international organizational capacity, low interaction with distribution network and insignificant market share in key markets, which means that such a firm will be very vulnerable in international markets due to the lack of experience and market share. In terms of the adolescent company, two types can be distinguished: home market adolescent and international adolescent. The first type of company is characterized by nonexistent international experience but considerable market share at home. In this case, although the firm lacks foreign experience, it is strong enough to compete in the global market and therefore may choose the incremental expansion strategy (discussed later). Meanwhile the second type has reversed characteristics with only a small or medium home market share but vast international experience, which however does not provide the firm with the strength to carry out international operations. A company that is highly prepared for internationalization is called a mature company. It has high rankings of all of the determinants of international organizational capacity, high headquarters interaction with distribution network and a dominant market share in its major markets. Not only MNEs can reach maturity in their preparedness for internationalization, also SMEs are capable of doing so by operating in a narrow niche market in multiple countries. (Solberg, 1997)
Now that the dimensions of the framework have been established, we can look at the particular strategic moves, which further depend on the company’s financial strength and consequently on the BCG-Matrix. Following are the nine strategic windows according to Solberg (1997):

1. **“Stay at home”**
   In the first case, the industry is local, which means that the country markets are independent from each other, with entry barriers preventing international companies to enter the local markets. Moreover, the firm is immature and not ready for internationalization, as it does not possess international experience or strength in the home market. Therefore the company should focus on enhancing its performance in the local market.

2. **“Consolidate your export markets”**
   The second window also suggests limited threat of international competition, although the company is more ready for internationalization. Depending on the firm’s financial position, the company could expand via licensing or foreign direct investment. However, the firm has to make sure that it is strong enough to follow the internationalization strategy.

3. **“Enter new business”**
   A company that is a leader in its key markets, where the markets are national with limited access and local competition, should think of entering new markets either in other countries or expand to other business areas at home. Having a strong position in the individual markets will help the company apply more aggressive strategies once it comes to the industry globalization.

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**Figure 1 The Nine Strategic Windows (Solberg, 1997, p. 11)**

<table>
<thead>
<tr>
<th>Preparadness for globalization</th>
<th>Industry globality</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Local</td>
</tr>
<tr>
<td>Adolescent</td>
<td>2. Consolidate your export markets</td>
</tr>
<tr>
<td>Immature</td>
<td>1. Stay at home</td>
</tr>
</tbody>
</table>
4. **“Seek niches in international markets”**

In the next window, the industry is more globalized (although not yet fully global) in that cross-border competition exists. Nevertheless, companies lack international experience and financial resources to face the international markets. What could be done with a more skilled management is finding a niche in foreign markets, where the firm would not have to deal with head-on competition. This could be accomplished by either expanding first to the neighboring countries or by mergers and acquisitions. The letter scenario is, however, more risky, especially if the company does not have any previous experience with buy-outs.

5. **“Consider expansion in international markets”**

The center of the framework is characterized by potential in both the market and the industry, as the market is somewhat globalized as in the previous case but the company has gained more international experience. In order to hold its position once the markets become fully globalized and more competition flows in, it is advisable for the company to progress its expansion into international markets. Depending on the entry barriers and other factors, different entry modes could be used, which will be discussed later.

6. **“Prepare for globalization”**

Although the company in the sixth window is well prepared for internationalization in a potentially global industry, it should analyze the impact of globalization forces (e.g. EU’s harmonization of standards) in order to be truly successful. If the firm holds a good financial position, it could be a bit more aggressive to anticipate the possible shift in the industry and expand through acquisitions. For a weaker company, it would be advisable to form strategic alliances with the major firms in the local markets.

7. **“Prepare for a buy-out”**

An immature firm with no international experience, operating in a global industry can only survive if it finds a niche market targeting a narrow segment of the global market. In such case, the company has three options. It can follow the strategy of Window 4 by redefining its business, seek global alliances following Window 8, or consider expansion in international markets as Window 5 suggests. However, if the company does not succeed in any of these strategies, the only option left is to prepare for a buy-out.
8. “Seek global alliances”
An adolescent company can improve its competitiveness against large players of the global market by establishing global alliances through joint ventures, R&D arrangements, marketing or subcontracting and thus overcome competitive disadvantages. The issue with this strategy is that firms will not be capable of holding on to their market position on their own in the long run. The only solution would be to either find a niche market or to follow the strategy of Window 6.

9. “Strengthen your global position”
The last strategic window applies to companies operating in global industry that are among the market leaders in their most important markets. Once a firm reaches this strategic window, it needs to keep up with the fast moving environment by anticipating changes in demand, customer preferences, costs, competitors’ behavior, new technologies, etc. Only by creating an organization that is able to quickly react to these changes will the company manage to maintain its top position.

2.2 Internationalization motives
We have explored the possible scenarios when a company should expand abroad. However, there are several reasons why firms usually consider internationalization. These drivers can be divided into proactive and reactive motives (Hollensen, 2011).

Proactive motives
When management decides to initiate a change of strategy by following the desire to exploit specific competences or market possibilities, we speak about proactive motives. These include profit and growth goals, managerial urge, the ownership of technology competence or unique product, foreign market opportunities or market information, economies of scale, and tax benefits, which will now be further explained. (Hollensen, 2011)

Although the profit and growth goals should be carefully planned and estimations should be made as realistically as possible, usually some kind of deviation occurs due to unpredictable circumstances, such as variation in exchange rates, which has an impact on profit and growth. However, the higher the willingness of the firm to grow, the more will it participate in search
for new opportunities and possibilities of achieving its plans of profit and growth. (Hollensen, 2011)

Another motive for internationalization is management’s desire to operate on a more global level by reaching foreign markets. This *managerial urge* results from managers’ entrepreneurial motivation, the desire to work in an international company or the opportunity to travel to foreign countries that internationalization brings. Moreover, if the manager was born in a foreign country or has the experience of traveling or even living abroad, they will most likely be more internationally oriented. The same may be true for managers with previous international work experience. (Hollensen, 2011)

A company that possesses a *technology competence* or a *unique product* may be motivated to expand to foreign countries. Nevertheless, it is important for such firm to establish whether the advantage is perceived or real as what the managers may see as a competitive advantage may not be the true case in international markets. If the advantage is real, the company should take into consideration how long this competitive edge could last and the necessity of patent protection to prevent competitors from imitations. (Hollensen, 2011)

*Foreign market opportunities* represent a motive to enter international markets only if the company owns the resources needed for responding to the opportunities. Usually, a limited amount of opportunities will be considered at first and entry will be made into countries whose opportunities are the closest to those in the home market. Moreover, opportunities can be spotted in countries or regions with sudden economic growth (e.g. South East Asia), newly established political freedom with willingness to trade with western countries (e.g. Eastern European countries), or countries whose attractiveness is enhanced due to internal changes (e.g. China, South Africa). If the firm possesses specific *market information* about foreign market situations, customers or marketplaces, which is not a common knowledge but may be the result of company’s international research or special contacts, it can differentiate the company from its competitors and provide incentives for expansion. (Hollensen, 2011)

International expansion means increasing output, which leads to cost reduction in both foreign and domestic market, improving the firm’s competitiveness and consequently obtaining more market share. Thus, *economies of scale* and the associated progress along the learning curve represent a strong motivation for companies to internationalize. However, in order to fully exploit economies of scale for some firms, standardization of their marketing mix across markets may be needed. (Hollensen, 2011)
The last of the proactive motives of internationalization is *tax benefits*, thanks to which the company is able to gain more profit or offer its goods at a more attractive price in international markets. However, firms need to be careful not to come into collision with the WTO’s antidumping laws, which prohibit companies from selling their goods at prices that are too low and thus a threat to local producers. (Hollensen, 2011)

**Reactive motives**

Reactive motives suggest that the company reacts to either the home or the foreign market environment by changing its course of action over time. Reactive motives consist of competitive pressures, saturated, small or low-growth domestic market, cost factors, overproduction or excess capacity, unsolicited foreign orders, extended sales of seasonal products, portfolio balance, and proximity to international customers and psychological distance, all of which will be further discussed. (Hollensen, 2011; Jobber, 2010)

A typical reactive motive that drives companies to internationalization is *competitive pressure*. When many firms from one industry decide to expand abroad, the others may feel that they need to internationalize as well in order to sustain their growth rate and size. Moreover, the competitors that have entered foreign countries can profit from economies of scale in the domestic market, taking market share from firms that only operate in their home market. In general, it is easier for a company that enters a market as first to retain its market share even after other competitors emerge. However, the entry needs to be not only quick but also sufficiently planned as poor preparation can lead to a fast withdrawal from the market. The last competitive factor is the desire of a firm to attack its foreign competitor, who has entered the firm’s home market, in the competitor’s domestic market. (Hollensen, 2011; Jobber, 2010)

Sometimes, companies are pushed into foreign markets due to *small size, saturation or low growth rate of the home market*. In order to exploit economies of scale or scope, firms often need to expand abroad as the small domestic market does not offer enough opportunities in this sense. Therefore, firms selling industrial goods or companies selling specialized consumer products often decide to export their goods to serve easily identifiable international customers or small consumer segments in multiple countries. Similarly, for being able to better compete with stronger global competitors in the home market, companies are often pushed towards internationalization. This was the case of Philips, Electrolux and Nokia. Saturated domestic markets provide a comparable motivation. When the home market does
not offer further opportunities for firms to raise their profits and sales or when the products offered at home are in the declining stage of their life cycle, companies may decide to reach international markets and prolong the life cycle of their products in this manner. This is often a successful strategy when firms move their product offerings from developed to less developed or developing countries, where customers have not yet attained the level of need of the customers in industrialized countries. Last of the domestic market characteristics that can motivate firms to access foreign markets is the economic situation at home. If domestic market shows low growth rate, i.e. during recession, companies may seek to expand beyond the borders to more active markets in order to secure their cash flow. (Hollensen, 2011; Jobber, 2010)

Another motive that can drive firms towards expanding into certain countries is cost factors. If the costs of some factors, such as labor or energy, reach a level which is no longer economically efficient for the company or when the firm faces a shortage of skilled workers, it will look for investment in areas where these costs are lower, yet people are highly educated, such as eastern and central Europe, Korea, Taiwan, and China. (Jobber, 2010)

Overproduction or excess capacity can either be a temporary motivator due to current circumstances when the company’s sales are smaller than expected or a stronger, more permanent motive for expansion. In the first case, a firm may choose to dispose of their unsold products by exporting them for a lower price. However, once the domestic demand reaches its expected levels and no inventory is left over, export either decreases or is terminated completely. The downside of such strategy is that it is only a short-term solution and may be problematic to employ again as customers may not be interested in random or temporary business relationships. In the second case, company owns equipment that is not utilized to its maximum capacity and therefore looks for means of distributing the excess capacity so as to spread the fixed costs more efficiently. Therefore, firms decide to sell over capacity in international markets, which presents a long-term commitment. (Hollensen, 2011)

Sometimes, what drives companies to serve overseas markets are unsolicited foreign orders. On one hand, international customers learn about firms’ products from advertisements in global trade journals or exhibitions and consequently enquire those products from the companies. This has initiated the export strategy of many, especially smaller, companies. On the other hand, some firms are required by their customers to have a global presence in order to oversee or advise on customers’ activities abroad, such as the case with advertising. (Hollensen, 2011; Jobber, 2010)
Firms producing *seasonal products* are often motivated to extend their sales by serving foreign markets on the opposite side of the hemisphere and thus securing a more balanced and lasting demand throughout the year. (Hollensen, 2011) Similarly, to ensure a more *balanced portfolio*, companies may seek to enter markets with different levels of growth rate and so ensure that the decline in profit caused by recession in some markets can be neutralized by growth in other countries. (Jobber, 2010)

The last of the reactive motives is *proximity to international customers and psychological distance*. Often firms do not pay much attention to the fact that they are serving the market in the neighboring country simply because it is geographically very close. This is often the case for European companies, where different country markets are in a close distance to one another. However, the assumption that a physically close market will also be psychologically close is often a misperception from managers’ side and leads to the failure to adequately serve the foreign market. On the other hand, with physically remote countries, managers tend to take more time planning the entry, as they are aware of the psychic distance. Nevertheless, geographic distance is not the sole indicator of closeness to customers as there are other factors that play a role in the distance to foreign markets, which should be considered when expanding abroad and which will be discussed later. (Hollensen, 2011; Pedersen & Petersen, 2004)

### 3 Entry strategies

Once a company makes the decision to internationalize, based on e.g. the nine strategic windows framework and considers its reasons and motives for expansion, it needs to set up an entry strategy by answering several fundamental questions:

1. **WHERE** does the company want to expand?
2. **WHAT** does the company want to achieve in the selected country?
3. **WHEN** does it want to enter?
4. **HOW** does it want to enter?

These questions will now be further discussed.
3.1 Location

An important topic for international expansion is the determination of which countries the company should enter. The key issue is to take all the relevant variables into consideration and assess them in the most appropriate way. However, before any evaluation can be made, the strategic goals for expansion need to be set out (Peng, 2009).

As distinct locations offer different benefits, strategic goals need to match these location-specific advantages. A favorable feature of a location may be its geographic position. Cities that are situated on the crossroads with other countries are usually preferred spots for doing business. For instance, Vienna is a common location for many international companies that wish to serve Central and Eastern European markets. Another aspect that firms take into consideration when deciding for the company location is whether economic activities are clustered around a specific place. Agglomeration is sometimes the decisive factor even when geographic advantages are missing (e.g. Silicon Valley in the United States). (Peng, 2009)

Four types of strategic goals can be distinguished: searching for natural resources, market, efficiency or innovation. When the company’s goal is to seek natural resources, it needs to expand into regions, which are rich in natural resources, and in which their transportation can be secured and communication infrastructure is developed. Typical examples of countries that firms enter because of their natural resources, i.e. oil, are the Middle East region, Russia and Venezuela. In other cases, companies target countries with a strong demand and where customers would be willing to pay for the firm’s products or services. Market seeking is often the goal of seafood exporters. Another strategic goal that firms may wish to pursue is efficiency seeking. Therefore, locations are evaluated based on their efficiency, which is characterized by the combination of low-cost factors and economies of scale. The most attractive countries in terms of lowest total costs are China and the countries of Eastern Europe. Finally, firms may wish to seek innovation by expanding into regions with high concentration of innovative individuals, near universities, and other similar firms. Companies with focus on information technologies would therefore prefer e.g. Silicon Valley, whereas firms whose concentration is on financial services would want to establish their presence in New York or London. (Peng, 2009)

Although the four strategic goals are different from one another in terms of their location-specific advantages, they are not mutually exclusive. However, the individual location benefits may change over time, which can lead to company’s relocation, either out of a country or expansion into further countries or regions. (Peng, 2009)
3.1.1 Four dimensions of distance

Apart from the strategic goals, there is another aspect that should be taken into account when considering the expansion into new markets. Although it is often neglected, the distance between the home and the host country can have a considerable impact on the company’s successful investment in foreign markets. There are four dimensions that need to be taken into consideration: differences in culture and societal institutions, geographic, and economic distance. An analysis of the possible impact of all these dimensions can either increase or decrease the attractiveness of entering a certain new market. (Ghemawat, 2001)

The CAGE (cultural, administrative, geographic, and economic) distance framework in Figure 2 gives an overview of the different factors associated with each dimension, as well as the ways in which certain products or industries are influenced (Ghemawat, 2001). These will now be further discussed.

Cultural distance

According to Ghemawat (2001), the two most overlooked dimensions are the cultural and the administrative distance. The neglect of the cultural distance can in many cases prove to be a crucial mistake, as it concerns the manner in which people interact with not only other people but also with firms and institutions. This is a result of various attributes, such as religious beliefs, social norms, race and language, whereas the less obvious contributors to cultural distance are social norms. Although they are not visible at first sight, they are “the deeply rooted system of unspoken principles that guide individuals in their everyday choices and interactions” (Ghemawat, 2001, p. 142). Moreover, cultural attributes can influence consumers’ preferences for particular product features. (Ghemawat, 2001)

As Peng (2009) suggests, institutional distance should be considered as well, as it represents the difference between countries in terms of regulatory, cognitive, and normative institutions. Ghemawat (2001) also examined industry sensitivity to distance, which unveiled that in terms of cultural distance, meat, cereals, various edible products and their preparations, as well as tobacco products are highly sensitive to cultural factors. On the other hand, road vehicles, cork, wood, electricity current and metalworking machinery are much less sensitive to cultural factors. (Ghemawat, 2001)
**Administrative distance**

The acknowledgement of administrative or political distance has its importance as well, as these two types of distance often impacts the mode of entry into a foreign market. However, it is not only government policies that pose barriers to foreign investment by imposing tariffs, quotas, restrictions on foreign direct investment and favoring local competitors, but also the lack of historical ties or the lack of membership in common political associations. There are several reasons why national governments are reluctant to foreign companies entering local markets, although it comes down to one simple explanation: they want to protect the domestic industry. This is especially the case when the local industry is a large employer or when it is seen as a national treasure, in which case the company represents a symbol of the country, stemming from patriotism. In other cases, the industry can be vital to national security or simply be a producer of food staples or other goods needed for everyday life. Furthermore, if citizens view the products or services offered by the industry as their basic human rights, such as in the health care sector, governments often intervene in order to keep the standards and prices under control. Very often, especially when it comes to oil and mining, the local country can feel threatened by the foreign companies and feel robbed of its natural resources, in which case nationalization becomes a thread to the multinationals. Last but not least, governments are protective of local industries in which commitments could lead to high sunk-costs. (Ghemawat, 2001)

From the historical point of view, Ghemawat (2001) suggests that in countries that share former colonial ties (assuming there is no hostility between them) the trade increases by as much as 900%. Other factors that boost trade between countries include common currency, political union (such as the European Union) and preferential trading agreements. Nonetheless, it is necessary to mention that different institutional infrastructure can, too, create administrative distance in that it is more difficult for foreign companies to operate in a country, where corruption and social conflicts take place, as opposed to a country with a well-functional legal system. (Ghemawat, 2001)

In terms of industry sensitivity to distance, Ghemawat (2001) found out that industries concerned with gold, nonmonetary units, as well as electricity, textile fibers and edibles, such as coffee, tea, cocoa, spices, sugar, and honey are more sensitive to administrative distance than those dealing with gas, travel goods, handbags, footwear, furniture, and sanitary, plumbing, heating, and lighting equipment.
**Geographic distance**

The more obvious dimensions of distance include the geographic and economic distance. However, geographic distance does not only suggest physical remoteness of one country from another, but also the size of the country, average distance to borders within the country, access to sea or ocean and rivers, as well as the country’s terrain. The communication and the transportation infrastructure need not be forgotten. Although transportation costs for tangible goods are quite apparent, intangible goods also have to face the impact of geographic distance in that with greater physical distance comes a more complex information infrastructure. When it comes to industry sensitivity to geographic distance, the physical remoteness has a greater impact on trade with gas, electricity, paper, sugar and live animals, than it does on, for instance, pulp and waste paper, photographic and optical goods, telecommunications, monetary trade, and trade with coffee, tea, cocoa and spices. (Ghemawat, 2001)

**Economic distance**

In terms of economic distance, the most important aspects of distance between countries are consumers’ wealth and income. These attributes influence the trade levels and the type of trade partners of a country. Generally, rich countries get involved in more cross-border economic activities than do poor countries and mostly with other rich countries. However, poor countries do not trade as much with other poor countries as they do with the rich ones. Further disparities arise from costs and quality of natural, financial and human resources, as well as infrastructure, inputs and information or knowledge. The choice of a business partner also depends on the type of competitive advantage the company follows. In case the company leans on economies of scale, experience or standardization, the trade partner should be a country with a similar economic profile. On the other hand, if the competitive advantage stems from the exploitation of price and cost differences between countries (economic arbitrage), a partner with different economic profile will be chosen. Aside from the reasons for expansion, a serious barrier to trade in a country that all companies share is the difference in distribution channels and supply chains. Moreover, the higher the complexity of the cross-border trade, the lower the ability of companies to react to changes and match the performance of the companies that are locally oriented. (Ghemawat, 2001)

Regarding the industry sensitivity economic distance leads to a decrease in trade with nonferrous metals, fertilizers, meat and its preparations, iron and steel, as well as pulp and
waste paper. On the other hand, trade is increased when it comes to coffee, cocoa, tea, spices, animal oils and fats, office machines, power-generating equipment, photographic devices, watches and optical goods. (Ghemawat, 2001)

The general remark about industry sensitivity, which aids the assessment of foreign market opportunities, is that it varies throughout the CAGE framework, resulting in the cultural aspect being the most sensitive and the economic aspect being the least sensitive to the distance between the home and the host country. (Ghemawat, 2001)

<table>
<thead>
<tr>
<th>Cultural distance</th>
<th>Administrative distance</th>
<th>Geographic distance</th>
<th>Economic distance</th>
</tr>
</thead>
<tbody>
<tr>
<td>Different languages</td>
<td>Absence of colonial ties</td>
<td>Physical remoteness</td>
<td>Differences in consumer incomes</td>
</tr>
<tr>
<td>Different ethnicities; lack of connective ethnic or social networks</td>
<td>Absence of shared monetary or political association</td>
<td>Lack of common border</td>
<td>Differences in costs and quality of:</td>
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<td>Different religions</td>
<td>Political hostility</td>
<td>Lack of sea or river access</td>
<td>- natural resources</td>
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<td>Different social norms</td>
<td>Government policies</td>
<td>Size of country</td>
<td>- financial resources</td>
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<td></td>
<td>Institutional weakness</td>
<td>Weak transportation or communication links</td>
<td>- human resources</td>
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<td>- infrastructure</td>
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<td>- intermediate inputs</td>
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<td>- information or knowledge</td>
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<td></td>
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<td>Differences in climates</td>
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</tbody>
</table>

Products have high linguistic content (TV)

Products affect cultural or national identity of consumer (foods)

Product features vary in terms of: size (cars) standards (electrical appliances) packaging

Products carry country-specific quality associations (wines)

Government involvement is high in industries that are:
- producers of staple goods (electricity)
- producers of other "entitlements" (drugs)
- large employers (farming)
- large suppliers to government (mass transportation)
- national champions (aerospace)
- vital to national security (telecommunications)
- exploiters of natural resources (oil, mining)
- subject to high sunk costs (infrastructure)

Products have a low value-to-weight or bulk ration (cement)

Products are fragile or perishable (glass, fruit)

Communications and connectivity are important (financial services)

Local supervision and operational requirements are high (many services)

Nature of demand varies with income level (cars)

Economies of standardization or scale are important (mobile phones)

Labor and other factor cost differences are salient (garments)

Distribution or business systems are different (insurance)

Companies need to be responsive and agile (home appliances)

Figure 2 The CAGE Distance Framework (Ghemawat, 2001, p. 140)
3.1.2 Country attractiveness

Country attractiveness analysis evaluates the market and industry opportunities and the possible negative impact on business due to local circumstances. A country is considered to be attractive, when the business conducted in the country generates “a return equal to or higher than the cost of capital” (Lasserre, 2007, p. 162).

There are many ways of assessing the attractiveness of a country, based on rankings or scores of different political, economic and social dimensions. Lasserre (2007) groups them into two broader categories, the market and industry opportunities, and country risks.

**Market opportunities** are determined by the potential demand of the company’s products or services in the examined country, which is predicted by the size and growth of the market, as well as the quality of demand. On the other hand, **industry opportunities** are measured by the quality of the competitive climate and the competitive structure of the industry, as well as the investment incentives provided by the state governments. These factors establish the level of competitiveness in the country. (Lasserre, 2007)

An analysis of **country risks** is important in that it evaluates the probability of unfavorable economic, political or social circumstances, which could have a negative effect on the firm’s performance in the country. Four types of risks can be observed: political, economic, competitive, and operational risks. **Political risks** result from different political actions, such as regulations, as well as societal crisis, unrest and other internal or external events. These lead to exposure of shareholders’ value due to assets destruction, expropriation and immobility, exposure of employees caused by kidnapping, gangsterism and harassment, and operational exposure in terms of labor unrest, market disruption, protests and shortages of supplies. **Economic risks** include variability in economic growth, inflation, increase in cost of inputs and changes in exchange rates, all of which affect firm’s profitability. Furthermore, non-economic distortion can have an impact on business in the form of **competitive risks**, such as cartels, networks and corrupt practices, causing a disadvantage for those who place their competitive advantage on product quality or economics. The last part of the country risks analysis is the **operational risks** evaluation. This is caused by unreliable infrastructure or government regulations’ nationalistic preferences resulting in costly taxation or constraints on local capital, content and employment. (Lasserre, 2007)
3.2 Entry objectives

According to Lasserre (2007) there are four main types of entry objectives, which a company may seek to achieve in a specific country: market development objectives, resources access objectives, learning objectives, and coordination objectives. Figure 3 gives an overview of the objectives’ specifications.

Market development objectives can be pursued in all countries, although some markets are more crucial than others due to their size and customer base quality. Presence in these key countries, i.e. Germany, France, United Kingdom, United States, Japan and China, is necessary for a firm that wishes to compete on a global level in the long run. Among the company’s objectives is to penetrate and develop the market and capture market share. In order to reach these objectives, it needs to consider the pros and cons of being the first-mover versus the follower and by assessing the timing, opportunities, risks and skills it can decide for any of the existing entry modes. (Lasserre, 2007)

The second type of objectives, the resources access objectives, depends on the presence of natural (e.g. mineral, agricultural) or human resources as these are meant to be part of the firm’s competitive advantage. Therefore these objectives can be applied only to countries rich on the necessary resources, which are evaluated based on their costs, quality and supply access. In this case, being a first mover has the advantage of pre-empting resources before the competition arrives. In order to secure the needed resources, an assembly plant, software center, plantation or exploration field will have to be established. Thus, the appropriate entry modes are wholly owned subsidiaries or joint ventures (if the local law requires it), but also long-term sourcing contracts. (Lasserre, 2007)

Often when a company enters a market with a state-of-the-art technology, its objective is to learn about the industry practices and gain knowledge and competences simply from being present in the market. This is the case of new technology companies, which frequently prefer California or Washington State to open up their businesses as these states are home to many well-performing global companies. Thus, once the countries with strong technological infrastructure and know-how are recognized as “competence” center, they are suitable for entry in form of a joint venture, R&D center or observatory center. (Lasserre, 2007)

The coordination objectives include the establishment of global, regional or financial headquarters, logistic or training center, or representative office in hub countries, which are intended for coordination of activities due to their advantageous location and infrastructure. (Lasserre, 2007)
<table>
<thead>
<tr>
<th>Expectations</th>
<th>Market</th>
<th>Resources</th>
<th>Learning</th>
<th>Coordination</th>
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<tr>
<td></td>
<td>• Market penetration and development</td>
<td>• Access to natural resources</td>
<td>• Understand state-of-the art technology</td>
<td>• Set up base for global or regional</td>
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<td></td>
<td>• Capture a share of market</td>
<td>• Access to skilled low-cost labor</td>
<td>• Close to best practices</td>
<td>development</td>
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<td>• Access to suppliers</td>
<td>• Learn to compete in difficult and</td>
<td>• Establish logistic centers</td>
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<td>sophisticated markets</td>
<td>• Close to financial institutions</td>
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<td>Key performance indicators</td>
<td>• Growth</td>
<td>• Costs</td>
<td>• Know-how</td>
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<td>• Market share</td>
<td>• Quality</td>
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<td>• Gross margin</td>
<td>• Supply access</td>
<td>• Synergies</td>
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<td>Timing</td>
<td>• Window of opportunity</td>
<td>• First mover in order to pre-empt</td>
<td>• As soon as country is recognized as</td>
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<td></td>
<td>• First-mover vs. follower</td>
<td>resources</td>
<td>“competence” center</td>
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<td>Type of countries</td>
<td>• All types prioritized as a function of</td>
<td>• Resources-rich countries</td>
<td>• Three stages:</td>
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<td>market potential, quality and</td>
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<td>- Initiation</td>
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<td>competitive context</td>
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<td>- Growth</td>
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<td>Mode of entry</td>
<td>• Depending upon risks, opportunities,</td>
<td>• Countries with strong technological</td>
<td>- Coordination</td>
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<td>timing and skills</td>
<td>and know-how structure</td>
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<td>• All modes of</td>
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<td>entry may apply</td>
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Figure 3 Entry Strategy Objectives (Lasserre, 2007, p. 193)

### 3.3 Timing of entry

As long as the company decides to enter new markets proactively and is not approached by unsolicited foreign orders, it can either become the **first mover** or the **late mover** in terms of timing of the entry (Peng, 2009). When the company enters the market depends on two things: the window of opportunity and the risk the firm is willing to take (Lasserre, 2007). According to Lasserre (2007), the *window of opportunity* recognizes four phases:

1. The **premature phase** is characterized by the lack of demand for a particular product or service or low levels of purchasing power, which suggest that the market is not ready for a heavy investment, although distribution agreements or representative offices
could be established for when the window of opportunity opens up. This phase is typical for developing countries.

2. The *window phase* is the first moment when the market opens up but not much competition is present yet. At this point, a firm needs to decide whether it wants to enter the market as first and gain a competitive advantage or whether it prefers to wait and enter later.

3. The *competitive growth phase* is defined by fierce competition as numerous companies had recognized the window of opportunity and entered the high-growth market. Since many firms are fighting for market share at this stage, a newcomer will have a hard time of finding a solid ground in the market, unless it has a very differentiated competitive strategy or is ready to invest a vast amount of resources. Due to the difficulty of gaining market share in a saturated market, companies often prefer to enter the country via a joint venture or acquisition.

4. The *mature phase* is the last phase in which the only option to enter the market is through acquisition or, in case the firm’s product is an innovation, direct investment. Other forms of entry would be extremely difficult as the competition is at this point well established.

There are several reasons why a company might want to be the first in the market. It may wish to establish its brand and standards before competitors arrive and build brand awareness and image of being the first company selling the product. Consequently, the firm may create switching costs for customers and thus raise entry barriers for latecomers. Moreover, being first in the market allows the company to preempt resources, such as distribution, location, people, contacts and suppliers, so that when firms enter the market at a later point, their access to these resources will be partially blocked. A first mover will also proceed faster along the learning curve and gain economies of scope and scale through proprietary, technological leadership. Furthermore, it will learn more about its customers and create relationships and connections with them and with other key stakeholders, such as the government. In the latter case, it may be particularly useful when governments adopt the firm’s technology as a national standard, creating additional entry barriers to competitors. Lastly, a company may want to avoid head on competition with a dominant rival in the home market and therefore choose to enter foreign markets as soon as possible. (Lasserre, 2007; Peng, 2009)

However, there are also disadvantages to being a first mover, which at the same time pose advantages for the late mover. If a company enters the market as first, several issues may
prevent it from succeeding: the market may be immature and not ready for the product or the infrastructure may not be sufficiently developed. Once the market and technological uncertainties are removed, the latecomers may enter the country with more ease than the first movers. Moreover, the first mover does all the work, such as introducing the new product, which requires vast amount of financial resources due to advertising and education of customers. While the first company struggles with all the initial work, the firms that enter the market at a later point can benefit from the first mover’s establishment of the groundwork. Since the first mover enters the market the earliest possible, it may not be able to adapt to changes in market conditions as well as a late mover, which gives the latecomer the opportunity to leapfrog the first mover. (Lasserre, 2007; Peng, 2009)

As both first mover and late mover have their advantages and disadvantages, it is difficult to establish which strategy is better for a company. Despite the fact that a company that enters a market as first has a greater opportunity for success than a late mover as it has virtually no competitors at the time, it also has to face more issues and may struggle more with the market situation than a latecomer. Therefore when considering the timing of the entry, other variables need to be taken into account as well. (Peng, 2009)

3.4 Mode of entry

After having decided which country to enter, for what reason and when, it is time to establish the type of entry mode that will be used. However, before a company decides for a particular mode of entry, it should consider the various factors, which influence the choice of entry modes.

3.4.1 Factors influencing entry mode decisions

After preliminary screening of the pros and cons of entering different foreign markets, a company must decide on the mode of entry into the potential countries. Although this decision should depend on the company’s expected profit contribution, it is also influenced by several forces with varying strength and direction. These factors can be grouped into four categories: internal factors, external factors, desired mode characteristics, and transaction-specific behavior. The individual factors can be evaluated on whether they increase or decrease internalization, where increased internalization represents the usage of hierarchical modes and increased externalization (decreased internalization) speaks for export modes, with
intermediate modes positioned in the middle. The four factor groups will now be explained in more detail. (Hollensen, 2011)

**Internal factors**

Internal factors include firm size, international experience and the product/service, all of which tend to increase internalization. *Firm size* implies the availability of the company’s resources, where higher resource availability supports higher international involvement over the years, which favors entry modes that require highest levels of ownership, such as the hierarchical modes. *International experience* of the firm’s managers and thus of the company lowers the uncertainty and cost of entering and serving a market and raises the likelihood of resource commitment in foreign markets, which again points to the use of hierarchical modes, such as wholly owned subsidiaries. The *product or service* itself is an important factor in that its characteristics (e.g. composition, perishability, value/weight ratio) are necessary for the production location decision. In case the value/weight ratio of a product is high or economies of scale of production are high or the company simply prefers to control its own production, a direct exporting mode may be the most suitable entry into a foreign market. On the other hand, if shipments costs are too high, an investment will be made into local production facilities. The product’s nature also influences the selection of channels due to the characteristics and usage differences among products in that, for instance, highly complex products may need not only before but also after sales support, which some intermediaries may not be able to offer. In such case, hierarchical modes will be preferred. Furthermore, product differentiation advantage needs to be considered as this helps to enhance the company’s competitive position, which firms may wish to guard by entering new markets via hierarchical modes. (Hollensen, 2011)

**External factors**

The group of external factors consists of several factors, some of which increase internalization and others that decrease it. *Sociocultural distance between home country and host country* is one of the factors that speak for externalization. As discussed before, sociocultural distance creates uncertainty for the firm. The greater the distance, the higher the likelihood that the company will avoid investing directly in the foreign market and rather choose an entry mode that requires lower resource commitment and higher flexibility, such as
a joint venture or, in case of great uncertainty, importers or agents. Another factor that leads to externalization is country risk and demand uncertainty. The different types of country risks mentioned earlier do not only determine the attractiveness of a country, they should also be considered when deciding which method of entry to use for a foreign market. When the risk analysis points to a high risk and demand uncertainty, it is advisable for the company to limit its resource commitment for the particular national market by using adequate methods with more flexibility, such as export modes, which allow the firm to quickly react to changes in the political or economic environment. Market size and growth favor internalization, as these two aspects add to the firm’s willingness to commit more resources in the new market by entering via a majority-owned joint venture or even a wholly owned subsidiary. In return, companies gain high control over their operations and get into direct touch with the market, allowing them to develop the market more efficiently. However, if the market or its growth rate is too small, the firm may not want to spend significant resources to its development and rather choose to serve it via a licensing agreement or exporting. Furthermore, internalization is also supported by the existence of direct and indirect trade barriers. Tariffs, quotas, product and trade regulations, preferences for local suppliers, customs formalities, tendencies to buy national and other similar barriers lead firms to the choice of intermediate modes, i.e. joint venture with a local partner and other contractual arrangements, which facilitate the entry into a foreign market by not only bypassing these limitations but also by developing local contacts and distribution channels. In some cases, the need may call for the establishment of hierarchical modes of entry, especially where production, assembly or finishing of the products is concerned. A fifth factor is the intensity of competition, which decreases internalization as it is wiser not to commit many resources in a highly competitive market. Instead, the use of export modes should be preferred. Last but not least, a small number of relevant intermediaries available will lead to internalization in favor of hierarchical modes in order to prevent the few export intermediaries from opportunistic behavior. (Hollensen, 2011)

**Desired mode characteristics**

The third group of factors that influences the entry mode decision is the desired mode characteristics. Factors such as risk-aversion of the decision-maker, the desired control over operations and flexibility need to be considered. The more risk averse the decision-maker is, the more they will incline towards externalization and the use of intermediary or export modes, as these require lower commitment of resources. A joint venture may be an option too,
as this entry mode presents a method of sharing financial commitment and risk, although it requires substantial commitment of management. However, entry modes with low resource commitment do not support the growth of international operations and therefore may lead to lost opportunities. The desired control over operations can lead to internalization and is linked with the commitment of resources. For instance, although indirect exporting requires commitment of minimum resources, it also offers the smallest control over the operations. On the other hand, the highest control is secured by wholly owned subsidiaries, which in return asks for significant investment in resources. The last of the desired mode characteristics that needs to be considered is flexibility. It points towards an increase in externalization, as the least flexible modes of entry are those that require heavy commitment of resources, such as hierarchical modes. On contrary, export modes provide the most flexibility and are the easiest to adapt to changes in market environment. (Hollensen, 2011)

**Transaction-specific factors**

The last group of factors is the transaction-specific factors, which includes transaction costs, opportunistic behavior and tacit nature of know-how. Transaction costs (i.e. search, contracting, monitoring, and enforcement costs) represent the friction, which in a market with imperfect competition exists between the buyer and the seller and is caused by opportunistic behavior. In order to reduce the costs of transaction and opportunistic behavior to a minimum, a firm will choose to internalize. Similarly, if the nature of know-how is tacit, meaning that it is difficult to express and transfer due to its complexity, the company will prefer to enter new markets via hierarchical modes. (Hollensen, 2011)

### 3.4.2 Entry modes

Entry modes can be analyzed from different perspectives. Based on the scale of entry, a simple division between non-equity and equity modes can be made. Non-equity modes usually indicate a small-scale entry with limited resource commitment to the foreign market, while equity modes are characterized by large-scale entry with substantial commitment of resources, which is more difficult to reverse. (Peng, 2009)

Equity modes are mostly used by MNEs, who often enter a market through foreign direct investment. This provides them with three types of advantages: ownership, location and internalization. A company has an ownership advantage when it is in direct ownership of
overseas assets and thus does not need to rely on an importer. The location advantages were discussed earlier. The concept of internalization was previously mentioned as well, in that internalization replaces external market relationship by in-house operations, which span across multiple countries, hence reducing transaction costs, the possibility for opportunism and increasing efficiency. As MNEs have, in comparison to non-MNEs, the so-called OLI advantages. A firm expanding abroad needs to consider these advantages before it decides whether to expand through FDI or rather use a different mode of entry. (Peng, 2009)

As the adaptation of Peng’s (2009) Decision Model in Figure 4 suggests, there are four main types of entry modes: export, contractual agreements, joint ventures and wholly owned subsidiaries. The first two are non-equity modes, whereas the latter two belong to equity modes (Peng, 2009). The further categorization is consistent with Hollensen’s (2011) division into export modes, intermediate modes, and hierarchical modes of entry, where intermediate modes correspond with the group of contractual agreements and hierarchical modes include both joint ventures and the different types of wholly owned subsidiaries.

Export modes (using external partners) are characterized by low control and risk but high flexibility. Intermediate modes, or contractual modes, can be described by split ownership, where control and risk are shared, putting these modes in between export and hierarchical modes. The highest control and risk with lowest flexibility are appointed to hierarchical or investment modes. (Hollensen, 2011)

Figure 4 The Choice of Entry Modes: A Decision Model (Peng, 2009, p. 170)
Moreover, there is a special form called **strategic alliance**, which is a collaboration between two or more companies over certain time and space in order to obtain a specific common long-term goal. All of the involved firms have to provide some input to the agreement. The geographic dispersion of the companies does not play a role in an alliance, as these can act either locally, regionally or globally. An example of a strategic alliance is the “Star Alliance” formed by six independent airline companies who formed an alliance with the purpose to coordinate their flights and cooperate by selling tickets to customers flying to any destination served by an alliance member. In this way, all members profit from access to cities that are not on their route. Since members of a strategic alliance can keep their individual corporate identities, these alliances can be formed between different company forms, such as contractual agreements or joint ventures. (Sanyal, 2001)

The four main types of entry modes will now be described in more detail.

**Export**

The first step a firm can take towards internationalization is exporting. A company usually decides to export either due to its own proactive managers or because it received an unsolicited order from a foreign customer (Hollensen, 2011). In any case, since the products manufactured in the home country are sold in foreign markets, the company will have to deal with international business practices and politics, trade regulations, foreign exchange rates and competition (Sanyal, 2001).

A firm that wishes to export its goods may have several options depending on the degree of involvement it wants to exercise and the use of a third party it is prepared to engage. If a company handles its own exporting activities and sells its products directly to independent intermediaries in the foreign market, such as agents or distributors, it is using a direct export mode. (Hollensen, 2011) This type of export gives the manufacturing firm more control over distribution than do other export modes, as the company itself takes care of its marketing mix strategies, marketing research, transportation and the building of contacts (Hollensen, 2011; Sanyal, 2001). Thus, it can gain more market experience and knowledge while shortening the supply chain, as opposed to indirect export (Hollensen, 2011). However, there are also disadvantages of this type of export mode. The firm may have to face trade restrictions, the control over the price in the foreign market will be very limited due to tariffs and the control over distribution will be small in comparison to other types of entry modes (Hollensen, 2011). Moreover, if the company deals with a large amount of foreign buyers, it should be physically
and psychologically closer to its customers and therefore consider a more suitable entry mode via an FDI (Sanyal, 2001).

In case the firm does not have any previous exporting experience and wants to face minimum risk while committing little amount of resources, it may consider indirect export through export intermediaries based in the domestic market (Hollensen, 2011). Third parties are often used in exporting due to their knowledge about the risks and uncertainties in the local markets and developed international contacts, which the firms who wish to export do not have because of information asymmetries (Peng, 2009). Such intermediaries include export-buying agents, brokers, export management companies or export houses, trading companies, etc. (Hollensen, 2011). Although the use of an internationally experienced third party enables the company a high market diversification with limited commitment, it also comes with some drawbacks. First, the intermediaries might not have the same agenda and objectives as the exporting firm, which may lead to more or less severe problems (Peng, 2009). Since the sale of the products is fully in hands of an agent or management company, the exporting firm cannot control whether appropriate distribution channels are chosen, whether the promotion is done correctly and consistently with the product image, or whether its products are not over- or underpriced. Together with an inadequate sales support or servicing, all these factors if not executed properly by the third party may damage the image of the exporter. Moreover, since the company is not in direct contact with its overseas markets, it cannot profit from the learning curve and can only receive limited information and input from the local markets, which poses a difficulty in case the firm decides to plan further international expansion or change its entry mode. (Hollensen, 2011)

**Contractual agreements**

When a company decides to get more involved in a foreign market than by mere exporting but does not feel that direct investment is a suitable entry form due to different reasons, it can choose to enter the market via one of the contractual agreements by sharing its trademark or proprietary knowledge with other companies (Sanyal, 2001). It may be a good strategy to enter the market through one of the modes shown in Figure 5, when the firm perceives the country as being too risky, when the local market is not big enough for full investment, when the company already invests directly in a neighboring country and thus does not want to act redundantly, or simply when the firm wants to enter the market but due to local government restrictions, this is the only acceptable entry form (Lasserre, 2007). As licensing and
franchising are the most discussed types of contractual agreements in literature, these will now be examined in more detail.

**Licensing** is a contractual agreement where the licensor (a domestic company) gives the licensee (a foreign company) the right to use its trademark, patents, know-how, technology, designs, or other intangible assets against a royalty fee (Hollensen, 2011; Sanyal, 2001). There are different types of licensing depending on what is being licensed. In patent licensing, the *patent* provides a legal protection of either a new product or process, whereas in *trademark* or *trade name* licensing, the picture, symbol or name, which sets apart a company’s products or services from others, is being protected and licensed (Hollensen, 2011; Sanyal, 2001). Although trademark licensing can rather easily increase the firm’s short-term income by over-licensing a product, the licensor should be careful with this strategy as it may lead to undermining of the product (Hollensen, 2011). Further concepts that can be licensed are *copyright*, which protects the original authorship of films, books, music and software, and *trade secret*, which is a process or information that serves as a competitive advantage and thus is kept secret by the company (Sanyal, 2001).

The extent in which a company decides to license is determined by several variables. The *firm’s size within the industry* impacts licensing in that a smaller company is more likely to go into licensing than a bigger one. A firm with a higher *percentage of R&D investment* (in terms of sales) is more inclined to licensing than a company which does not invest heavily into R&D. Furthermore, a company that is highly diversified is more likely to license than a company with a smaller *level of diversification*. The *trademark or brand name* plays an important role in the licensing decision as well. Brand names with higher recognition have a higher chance of being licensed than those that are not very well known. Last but not least, the company favors licensing when it lacks *experience in international business*. (Contractor, 1985)

Despite a firm possessing all of the above mentioned variables that point towards licensing, the success of licensing cannot be guaranteed. In some cases, the company has such a particular set of resources and skills, experience, production methods or connections with marketing or R&D department that they cannot be duplicated elsewhere. In others, the licensee’s ability, resources or market potential may not be suitable and ready for a successful licensing strategy. (Sanyal, 2001)
However, licensing is still an attractive entry form as it has something to offer to the licensor at every stage of the product’s life cycle. Quick and easy entry in key markets and recovery of R&D costs can be easily managed at the introduction stage, while at the growth stage potential licensees may appear as the sales in the home market grow, allowing the licensor to expand internationally. Moreover, the product’s life can be prolonged by licensing as it generates royalties from markets, where the product is still in the early stages of its life cycle. This can be essential for financing R&D projects at home, where the product faces tough competition in a mature market or is on decline. (Sanyal, 2001)

Company’s reasons for licensing can be divided into firm-specific and external reasons. Firm-specific reasons include the lack of sufficient financing and/or knowledge of foreign markets, the absence of internal managerial skills for the exploitation of the technology at hand, and the previously mentioned mature home market. Firms are also motivated to license abroad in order to create a market of accessories, supporting inputs, and raw materials, as well as to receive helpful feedback on the firm’s technology or processes. The external reasons for licensing stem from external forces, such as entry barriers that prevent companies from using other entry methods, i.e. local governments’ pressures to license. A further reason for the choice of licensing may be a small size of the considered foreign market. Moreover, the goal of piracy and counterfeiting discouragement is often a reason for licensing for companies selling technology. The fast evolution of technology has forced many companies over the past couple of years to license its products abroad soon after their availability in the home market in order to prevent competitors from creating imitations through reverse engineering. (Sanyal, 2001)

Licensees have their own reasons for licensing. The absence of internal R&D capacity is one of them, as obtaining a license provides a quick and relatively easy way of acquiring new technology. Moreover, by gaining know-how from the licensor, the licensee can improve their own production efficiency. Profit can also arise from selling a well-known product, brand or process through brand name or trademark licensing. Further motive for licensing is the future building of expertise for a line of products or for a particular industry. Lastly, government as an external factor can pose as a reason for licensing not only for the licensing company but also for the licensee as its restrictions on FDI in the local market or import restrictions hinder the ability to access new technology. (Sanyal, 2001)

As every form of market entry, licensing too poses certain risks for both parties involved. Since the licensee acquires all the necessary know-how and technology from the licensor, he
or she may represent a thread of becoming a competitor once the license expires. Therefore companies need to carefully consider whether their proprietary information should be shared with a licensee. Due to the fear of losing control over the elements that contribute to the firm’s competitive advantage, many companies do not license their core technology but rather share their older technologies, over which they can keep better control and lead thanks to further innovations. Another risk that the licensor faces stems from their dependence on the licensee in the foreign market. If the product shows poor quality or service, or the licensee fails to produce or distribute the products due to insufficient acceptance from customers or the licensee’s inability to embrace the technology, or if the licensee violates the agreement by not paying the license fee, does not share information or sells products in markets in which they are not allowed to, the licensing arrangement will most likely lead to failure. (Sanyal, 2001)

**Franchising** is another form of contractual agreements, very similar to licensing. The difference to licensing is that in franchising the franchisee is given the right to use the whole business concept or system, including the use of other property rights such as trademarks, in exchange for a royalty fee. In order to be able to profit from such rights, the franchisee has to adopt certain policies so that they can run the business in the same manner as the franchiser and thus maintain the brand’s quality standard. This may include e.g. the franchisee’s obligation to acquire the necessary supplies from the franchiser. (Hollensen, 2011; Lasserre, 2007; Sanyal, 2001)

Another difference between these two agreements is that franchising contracts are usually of longer duration and tend to be used by service firms, whereas licensing is more frequently used by manufacturing firms (Sanyal, 2001). One of the reasons for this separation is that service activities generally need more outlets serving customers in different countries (Hollensen, 2011). Examples of franchising can be found among many large international companies in the fast food industry (McDonald’s, KFK, Burger King, Subway, Taco Bell, Domino’s Pizza), beverages (Coca-Cola), convenience stores (7-Eleven), car rental (Avis), hospitality industry (Hilton, Accor), distribution (Benetton, Gap) but also among furniture manufacturers (IKEA) (Hollensen, 2011; Lasserre, 2007; Sanyal, 2001).

When looking into the pros and cons of franchising, they are comparable to those of licensing (Lasserre, 2007). The reasons for choosing franchising as a form of entry are also very similar to the reasons for licensing (Sanyal, 2001).
As in licensing, franchising too covers different business concepts, depending on what is being franchised. The two most common types are franchising of product and/or trade name and franchising of the business format. The former usually involves a distribution system, where dealers try to sell or buy products while using a trade name, trademark or product line. This form resembles very much trademark licensing. The latter one, business format franchising, involves the transfer of the whole business package from the franchisor to the franchisee or subfranchisor. The content of the package can include a variety of business elements ranging from the most obvious ones, such as trademark or trade name, designs, copyrights and patents, trade secrets and know-how, to the less obvious ones such as geographic exclusivity, store design, selection of the location and the area’s market research. Moreover, the franchisee is typically provided assistance with the set up and management of local operations and can benefit from the franchisor’s sub-supplies or central advertising. (Hollensen, 2011)

There are two ways of transferring the business package. It can be done either directly or indirectly. In direct franchising, the franchisor works directly with the individuals or firms in the foreign country, who show an interest in becoming franchisees. Thus, the franchisor has direct control over the franchised operations and an immediate access to local knowledge and resources, which calls for more involvement from the side of the franchisor. The alternative is to use indirect franchising, in which case the role of a master franchisee or a subfranchisor needs to be established. The master franchisee is then responsible for the individual franchisees. A company usually decides for an indirect form of franchising when it seeks for someone with more knowledge about the local market and law structure, as well as more experience and resources. On one hand, this means that the franchisor does not need to exercise strict control over their franchisees, as this is the task of the master franchisee, as well as the control of requirements, which all lead to cost reduction for the franchisor. On the other hand, due to the lack of control, it can cause monitoring issues. (Hollensen, 2011; Sanyal, 2001)
<table>
<thead>
<tr>
<th>Strategy</th>
<th>Organizational design</th>
<th>Advantages</th>
<th>Disadvantages</th>
<th>Critical success factors</th>
<th>Human resource issues</th>
</tr>
</thead>
<tbody>
<tr>
<td>Technology licensing</td>
<td>Technologies</td>
<td>• Early standardization of design</td>
<td>• New rivals created</td>
<td>• Choose licensees carefully to avoid future competitors</td>
<td>• Technical knowledge</td>
</tr>
<tr>
<td></td>
<td></td>
<td>• Ability to capitalize on innovations</td>
<td>• Possible dependence on licensee</td>
<td>• Enforce patents and licensing agreements</td>
<td>• Training local managers</td>
</tr>
<tr>
<td></td>
<td></td>
<td>• Access to new ideas</td>
<td>• Possible eventual exit from industry</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Trademark licensing</td>
<td>Product and geography</td>
<td>• First market entry</td>
<td>• Protecting the integrity of the trademark</td>
<td>• Specified use of the trademarks</td>
<td>• Integrate licensees into the business</td>
</tr>
<tr>
<td></td>
<td></td>
<td>• Low capital cost</td>
<td>• Monitoring the licensee</td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td></td>
<td>• No manufacturing concerns</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Franchising</td>
<td>Geography</td>
<td>• Quick and easy entry into new markets</td>
<td>• Exercising quality control</td>
<td>• Partners share same values and objectives</td>
<td>• Integrate franchisees into the business</td>
</tr>
<tr>
<td></td>
<td></td>
<td>• Low capital cost</td>
<td></td>
<td>• Maintain performance standards</td>
<td></td>
</tr>
</tbody>
</table>

Figure 5 Comparison of Technology Licensing, Trademark Licensing, and Franchising (Sanyal, 2001, p. 231)

**Joint ventures**

The next logical step after licensing and franchising in a firm’s internationalization process leads towards strategic alliances, joint ventures and wholly own subsidiaries. These start to be more viable options once the size of the overseas markets, sales and profit margins, as well as the profit potential outgrow the handling capacity of exports and contractual agreements. Therefore in order to secure an optimal process, the company needs to look for more suitable organizational forms that would not only meet the need of additional sales, production capacities or technological sophistication but also suit the firm’s desire for control. Another reason for an entry mode change may be that the company wants to participate more actively in the foreign market in order to fully exploit its technical and economic resources and so aid its foreign operations in becoming more successful. Previous experience with export, licensing or franchising can be of an advantage for a firm who wishes to invest directly in a foreign market. (Sanyal, 2001)
As mentioned earlier, a joint venture can be a form of strategic alliance. However, it is necessary to precise the difference between these two forms. Although they are both based on the same principle, a collaboration of two separate firms, they differ in the equity input and the outcome of the cooperation. Strategic alliances are usually non-equity collaborations where no new organization is created. On the other hand, a joint venture is a partnership of typically two companies where a separate organization is formed and in which all companies invest equity. Consequently, a firm possesses more control in a joint venture than in a strategic alliance. However, the costs are also higher, the more control the company has. (Hollensen, 2011; Sanyal, 2001)

Three kinds of joint ventures exist depending on the equity input of the partners: minority, 50/50, and majority joint venture. In a minority joint venture, the partner holds an ownership of less than 50 percent. On the other hand, in a majority joint venture, one partner owns more than 50 percent of the equity. There can also be an equal partnership, where both partners bring in exactly 50 percent of the equity. (Sanyal, 2001)

In terms of collaboration, the companies may decide to contribute to the joint venture in different manners and take responsibility for various processes within the new organization. According to the actions, which they agree to take on, the two firms can either form a Y coalition or an X coalition. In Y coalition each partner brings in additional services or product lines and takes the responsibility of all the value chain activities within their line of products. Such coalition can provide the advantage of economies of scale thanks to the joint production or the benefit of wider market coverage for both partners due to the usage of new distribution channels. It can be assumed that the two companies forming this kind of joint venture are alike in terms of their value chain activities strengths and weaknesses. In the X coalition, the value chain activities are split between the partners. The division of the activities depends on the core competencies of both partners. A foreign company, e.g. a manufacturer or exporter, might want to form an X coalition with a local company because of the local company’s market knowledge, which the foreign firm is lacking. In this way the foreign partner could get access to the local distribution channels and someone to take care of the marketing and sales and services for his products. The local partner might want to enter in such a joint venture with the foreign company because he could profit from his partner’s strength in upstream functions, such as R&D and production. It is apparent that the partners forming an X coalition have asymmetric competences, as they both have opposite strengths and weaknesses in their value chain activities. (Hollensen, 2011)
When a company decides to enter a foreign market via a joint venture with another company, the most important tasks it needs to carry out is setting the objectives and selecting an appropriate partner. These will now be described in more detail.

1. Joint venture objectives

The reasons why a company would want to form a joint venture with another firm are numerous. One of the fundamental reasons is to enter new markets. It is much easier to enter into a partnership with a local company and sell products through the partner’s distribution network or to use his marketing expertise when his market presence is already established. In this way there is no need for a costly, risky and sometimes legally difficult 100% involvement of one company in the foreign market.

Further reasons behind forming a joint venture or strategic alliance include the aim to increase market share, as the bundling of support services, product lines and other complements helps reach a wider range of customers; and risk reduction by spreading the risk among the partners and/or diversifying the offer of products and services, which in turn accelerates the process of reaching the market, acquiring market knowledge and thus helps receive the return on investment faster.

Cost reduction can be obtained as well through economies of scale, which are created by pooling capital or combining certain functions. Costs can also be lowered and the overall production can become more efficient if duplication and waste are reduced, making the whole process more efficient.

Sometimes the objective of creating a joint venture or alliance lies in access to technology, patents, and trademarks. If one company lacks the technical knowledge necessary to upgrade its products, it may find a solution in collaboration with a more technologically advanced firm. Aside from the technical know-how and patents, the brand name of one company might be so powerful that another company might want to seek a partnership to facilitate its international growth by being associated with a strong firm.

Other times, partnerships are created due to a need for information acquisition about new business opportunities, R&D, products, or input sources; or because forming alliances is a trend in the industry and all companies are seeking partners so they can answer to market conditions in a more suitable way.

In certain industries, creating joint ventures or forming alliances can be a strategy for eliminating competitors. This is usually seen when large firms decide to cooperate in order to
secure the market volume for themselves. However, smaller companies may also want to form partnerships so that they can compete with larger firms. Although the objective is not always to eliminate competition per se, as it often happens that a firm decides to pair up with a current or potential competitor in order to strengthen its position, large joint ventures and strategic alliances might need the approval of government to avoid violation of antitrust laws. On the other hand, government influence might sometimes be the reason for forming an alliance or joint venture as in some cases governments may encourage such operational forms. (Hollensen, 2011; Sanyal, 2001)

2. Selecting partner
Once the company has set its objectives for forming a joint venture, it is necessary to select a partner. This is a crucial step for a company, as the partner selection will have long-term consequences. Therefore it is essential that the new partner is compatible in terms of his objectives so that the business relationship will be stable and lasting, with minimum communication barriers and where both partners’ capabilities will match or complement each other and mutual trust will be found. To secure the best possible fit, the firm should undertake an advance screening of the potential candidates, conduct interviews with the responsible managers, owners and other partners of the candidate, as well as examine his financial data. Although such advanced planning is in reality not always feasible, it would be wiser to invest more effort in the pre-screening and to avoid potential future negative impact of not choosing the most suitable partner. (Hollensen, 2011; Lasserre, 2007)

In order to select the most appropriate business partner, Lassere suggests looking at four fit criteria: strategic fit, capabilities fit, cultural fit, and organizational fit. Strategic fit occurs when the long-term objectives of both partners are compatible. There are typically three types of agenda the partners may exhibit. If the two firms aim at joining forces so that they can create a new business activity and develop the market potential, we talk about a venturing agenda. In case of an extractive agenda, one company is looking to acquire something from its partner (e.g. competence, resources, assets), which suggests the previously discussed X coalition. An opportunistic agenda is an agenda followed by the local partner who wants to take advantage of his political contacts and citizenship or is looking for financial return. In this scenario, the foreign company searches for a way to comply with regulations or seeks only a short-term partner. Therefore these two firms would make a good strategic fit. (Lasserre, 2007)
A *capabilities fit* takes place when the two partners are able to add the needed competencies or resources to the newly established joint venture. They need to recognize and solve possible contribution gaps as the initial funding will eventually become insufficient and new inputs will have to be brought in. This is where problems may easily arise. However, key elements in negotiations may be the contributions that are most valuable for the joint venture, such as intangibles and technology. (Lasserre, 2007)

A very important aspect to consider when selecting a partner from a different country is the *cultural fit*. An international joint venture will always have to face some cultural dissimilarities that stem from national, ethnic, corporate or industry differences and which need to be assessed before the two firms form a partnership. Otherwise it might be harder to deal with the problems and conflicts that may occur. (Lasserre, 2007)

Last but not least, the management systems of both partners, as well as their procedures, should be analyzed, as these show whether the two companies can be considered as *organizational fit*. If the local partner is a small firm with a lack of procedures, it might be more challenging to find a way for cooperation with a big multinational corporation. (Lasserre, 2007)

Aside from the companies being the most suitable partners for each other in terms of the four fit criteria, they need to be committed to the joint venture not only financially but also psychologically so that they can overcome any potential struggle. (Hollensen, 2011)

Managing a joint venture is not an easy task, as it requires constant work to secure the happiness of both partners. There are several factors that determine the success of joint ventures. First, it takes *careful planning and execution*. Both companies need to carefully evaluate their counterparts and bring some of their best managers to the newly created joint venture. The strategic objectives and needs of both partners need to be clarified and the management needs to set a clear common vision that can be followed by creating a work plan and decision-making process. However, committed management is not the only success factor. The *assignment of key personnel* is important as well. There are typically two sources of employees: those that were previously employed by one of the partners and now move to work for the joint venture, and those that are recruited from the outside. Having expatriates work for the newly created company can help maximize organizational learning. However, recruiting new people from outside the partners can be refreshing for the joint venture, as these will have clear loyalty towards the joint venture unlike the employees who previously
worked for one of the partner firms. It is also important to adopt an evolutionary approach, so that the new company can grow into success. For this to happen, the two partners need to acknowledge that the joint venture is an entity on its own and it is not to be interfered in its day-to-day management. Nonetheless, the joint venture has to plan each step with caution and the negotiations need to happen separately. (Turpin, 1993)

**Wholly owned subsidiaries**

The deepest involvement of a company suggests 100% ownership, which is the result of creating a wholly owned subsidiary. This entry mode secures the firm the highest operational control but also involves the highest risk, as the company itself is the sole owner of its foreign operations (Lasserre, 2007). There are several ways in which a wholly owned subsidiary can be established. It can either be built from scratch as a greenfield investment, obtained through an acquisition, or it can be a result of other forms, such as mergers (Sanyal, 2001). All of these types of subsidiaries have some advantages and some drawbacks in comparison to other entry modes.

When compared to a joint venture, a greenfield investment provides the MNE with complete control, removing any other partners from the equation. Consequently the firm’s proprietary technology receives a better protection and the global actions can be coordinated centrally. On the other hand, greenfield investments are typically expensive and financially risky, especially in the long run. Due to government restrictions, it might not always be possible to build or fully own a subsidiary. Greenfield investments often have to face political risks as well, since from the point of view of locals they are owned by foreigners and thus may become an object of nationalistic sentiments. Moreover, the entry into the market is slower with wholly owned subsidiaries than with other entry modes. It may also overcrowd the competitive industry by adding new capacity to it. The withdrawal from a foreign market is more difficult than with other entry modes, should the business climate become unfavorable. (Peng, 2009; Sanyal, 2001)

An important form of wholly own subsidiaries are acquisitions, as they represent 70% of FDI worldwide. With acquisitions, one firm takes over another by controlling its operations, assets and management. Besides granting the same benefits as greenfield investments, acquisitions do not add new capacity to the industry and they provide the company with a faster market entry thanks to existing distribution channels and customer base. Acquisitions also help companies gain access to experience with local markets and enter highly competitive
industries, where the market is very saturated and would therefore be almost impossible to enter in any other way. There are four forms of acquisitions: horizontal, vertical, concentric, and conglomerate. A horizontal acquisition is characterized by the similarity of markets and product lines of the acquiring and acquired company. In a vertical type of acquisitions, one company becomes the customer or supplier of the other one. When the market in both firms is the same but the technology differs or vice versa, we speak about a concentric acquisition. Last form is the conglomerate acquisition where the acquiring and the acquired companies are in different industries. Regardless of which type of acquisition is used, the acquiring company may face integration problems due to different coordination and management styles of the acquired firm. Cultural and practice adjustments usually need to be made in order to avoid employees’ resistance. Nonetheless, in some countries acquisitions are impossible due to government restrictions, which prohibit foreign firms to acquire 100% of local companies. (Hollensen, 2011; Peng, 2009; Sanyal, 2001)

Primarily, a company pursues a full ownership strategy when it does not need anyone else’s resources or expertise and owns a strong product line of its own. However, there are other reasons why firms decide to enter a foreign market with wholly owned subsidiaries as opposed to joint ventures or strategic alliances. There may be some uncertainty about the partner and the foreign firm may feel unsecure about the new company’s integrity and abilities. The company may also worry that with time it will be pressured into sharing more resources, authority and decisions with the partner. Also, the partner may sell its shares to another company even if the foreign partner who stays in the joint venture does not agree with the new partner selection. Moreover, there is always the possibility that conflicts will arise between the two partners regarding control, pricing, development of products, or even personal matters. Lastly, the firm may believe that the best viable option in integrating the new subsidiary with the rest of the company’s activities is a full ownership of the subsidiary. (Sanyal, 2001)

A total ownership enables the company to have full control over its activities and there is no need to ask the partner’s permission or to spend time with negotiations. Instead, the foreign firm can pursue its own strategic goals. These are also the reasons why in many cases the foreign company that is involved in a joint venture decides to buy off its partner and thus acquire 100% ownership. The buy-off usually happens when the initial reason for choosing a joint venture as an entry mode fades away. Such situation often occurs when the foreign company acquires the necessary know-how, which ensures a smooth operation in the host
market, or when the joint venture partner cannot fulfill the obligations it has towards the company. In the latter case, the local partner himself may want to sell his shares to the foreign partner. (Sanyal, 2001)

Other situations when companies decide for full ownership include cases when the foreign firm wants to desperately protect its technical know-how and strategic plans from existing and potential competitors, when quality control is of utter importance, when the company’s global strategy calls for centralized control of all global operations, and when the firm’s image could be tarnished if associated with any kind of partner. Moreover, it is more probable that companies will consider entering a foreign market via wholly owned subsidiaries if there are no government restrictions on full ownership in the host market and when the currency is weak. (Sanyal, 2001)

To summarize the key characteristics of the most commonly used non-equity and equity modes that we have discussed, we can take a look at Figure 6. The comparison gives us a simple overview of the advantages and disadvantages that play the biggest role in deciding which entry mode to use for the expansion into foreign markets.

<table>
<thead>
<tr>
<th></th>
<th>Licensing</th>
<th>Joint ventures</th>
<th>Acquisitions</th>
<th>Wholly owned subsidiaries</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Upfront investment,</strong></td>
<td>Low</td>
<td>Medium</td>
<td>High</td>
<td>High</td>
</tr>
<tr>
<td><strong>financial and managerial</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td><strong>Speed of entry</strong></td>
<td>Medium</td>
<td>Quick</td>
<td>Quick</td>
<td>Slow</td>
</tr>
<tr>
<td><strong>Market penetration</strong></td>
<td>Medium / Low</td>
<td>Medium / High</td>
<td>High</td>
<td>Medium</td>
</tr>
<tr>
<td><strong>Control of market</strong></td>
<td>None</td>
<td>Medium</td>
<td>High</td>
<td>High</td>
</tr>
<tr>
<td><em>(customer knowledge)</em></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td><strong>Political risk exposure</strong></td>
<td>Low</td>
<td>Medium</td>
<td>High</td>
<td>High</td>
</tr>
<tr>
<td><strong>Technological leakage</strong></td>
<td>High</td>
<td>High / Medium</td>
<td>Low</td>
<td>Low</td>
</tr>
<tr>
<td><strong>Managerial complexity</strong></td>
<td>Low</td>
<td>High</td>
<td>High</td>
<td>High</td>
</tr>
<tr>
<td><strong>Potential financial return</strong></td>
<td>Low risk High return Low payout</td>
<td>Medium / High risk High / Medium return Medium payout</td>
<td>High risk High / Medium return High payout</td>
<td>High risk High / Medium return High payout</td>
</tr>
</tbody>
</table>

Figure 6 Comparison of various entry modes (Lasserre, 2007, p. 209)
4 Market expansion strategies

An important step in internationalization for every company is the decision of how to expand into foreign markets. The expansion strategy depends on the market characteristics, the product life cycle and can influence competitors’ behavior and the company’s market share. Firms are most likely to choose one of the following strategies. (Hollensen, 2011)

The incremental approach or waterfall approach, showed in Figure 7, recognizes cultural distance as an important factor in market expansion. For this reason, learning patterns are of importance and can provide a way to success. They allow firms to build up international experience and use their knowledge from previous markets for the entry into the new markets. Therefore this approach suggests that the company enters new markets one by one, starting with countries with the smallest cultural distance. It then continues to move to other high growth developing markets and lastly entering the less developed countries. (Weitz & Wensley, 2002)

The waterfall approach may be a suitable way of expansion for new or expensive products or technologies, which could be initially afforded only by the advanced wealthier countries (Hollensen, 2011). With time, the economies of scale and learning curve would lower the prices, making the product or technology available to developing and less developed countries (Hollensen, 2011). Further advantage of this approach is the rather low resource requirements, which makes it a common expansion strategy, especially for newer (e.g. Dell, Benetton, The Body Shop) companies (Weitz & Wensley, 2002). According to Hollensen (2011), this approach is also suitable for small firms (due to their resource limitations), highly risk averse companies and those that enter foreign markets, where the local competition is already well established. However, a drawback of the incremental strategy is that it may not be fast enough for the quickly moving markets (Weitz & Wensley, 2002).

The simultaneous or shower/sprinkler approach, illustrated in Figure 7, is an alternative to the waterfall approach, with reversed advantages and disadvantages. Since in this case the company enters different foreign markets either at the same time or within a short period of time, it can create a first-mover advantage, as it is generally much faster than the incremental strategy. Therefore, the shower approach is suitable for industries with tight or time-based competition, innovative products or services or technology advancements (e.g. companies such as Sony, Microsoft, and Gillette). Moreover, thanks to an early market entry, a company can gain experience more quickly and build economies of scale by unifying operations across markets. However, the downside is that a simultaneous market entry into several countries

42
requires significant financial and managerial resources and involves high operating risk due to the possible lack of country knowledge and research. (Hollensen, 2011; Weitz & Wensley, 2002)

![Figure 7 The incremental strategy (waterfall approach) and simultaneous strategy (the shower approach) (Hollensen, 2011, p. 278)](image)

5 Starbucks

Starbucks is an internationally well-known coffeehouse company with over 40 years of experience in the coffee roaster and retail business. The first store opened in 1971 in Seattle, USA. Since then, the company has come a long way, offering coffee, tea and fresh food products in 65 countries around the globe in more than 22,000 stores. (Starbucks Corporation, 2015)

The Starbucks Corporation, formed in 1985 by Howard Schultz, has become a public company that sells its goods and services not only under the flagship brand Starbucks Coffee but also as Tazo, Seattle’s Best Coffee, Ethos, Evolution Fresh, La Boulange and Teavana, all of which the company acquired throughout the years (Starbucks Corporation, 2014a; Starbucks Corporation, 2015).

At the end of fiscal year 2014 (September 28th 2014), the corporation employed over 190,000 people around the globe, with more than 140,000 in its home country. (Starbucks Corporation, 2014a)

In regards to the nature of the company’s business, Starbucks’ main competitors include specialty coffee shops and quick-service restaurants. The competition revolves not only around product quality and price but also service, convenience, store location and personnel. The ready-to-drink beverages have additional competitors in form of other coffee and tea
brands as these are sold through grocery stores, convenience stores, specialty retailers, warehouse clubs and American foodservice accounts. (Starbucks Corporation, 2014a)

We will now look closer at the company’s international expansion, the markets they have entered and the way in which they proceeded, as well as at the partnerships they have formed along the way when entering European markets. All this will then help us with the analysis of the yet unserved Slovak market.

5.1 Internationalization and market expansion of Starbucks

Starbucks’ long-term strategic objective is to belong to world’s most acknowledged and respected brands. This is based on the company’s proactive motives of internationalization. As many other companies, Starbucks too has been seeking to increase its market share by entering new markets and opening more stores in existing ones, all in a disciplined way, as well as boosting sales in already existing stores. The store expansion in the markets where the company is already present will depend on different factors, such as the market maturity. (Starbucks Corporation, 2014a)

Although the first Starbucks store was established 44 years ago, it did not cross the international borders until years later. The internationalization process started slowly by first tapping the more familiar waters. The first Starbucks outside of the US opened in 1987 in Vancouver, Canada (Starbucks Corporation, 2015). This was a logical move for the company as it opted for and expansion to the culturally and geographically closest country, which corresponds to the theory of the waterfall approach. However, the real wave of internationalization started 9 years later, when Starbucks decided to enter the Asian markets and thus open its first stores outside of North America. This happened in 1996 when Starbucks arrived in Japan and Singapore (Starbucks Corporation, 2015). Since then, the company has entered new markets every year.

When looking at Starbucks’ timeline of market expansion in Figure 8 it is apparent that when the company taps a new market within a certain region, more markets in that region will be entered in the following years. This is again a sign of the incremental approach, as the corporation seems to be using its experience from previous markets in the entry of new markets within a region. The way in which Starbucks expands internationally seems to be based on cultural clusters. As previously mentioned, the corporation first worked on
increasing its presence in North America. After that, step-by-step it reached the markets in North Asia, Middle Asia, South Asia and Pacific, Middle East, Western Europe, Central America, South America and Eastern Europe. Moreover, the waterfall approach suggests that the company enters first the more developed markets and later the less developed countries, which also appears to be the way Starbucks follows with its expansion within clusters. Starbucks’ incremental strategy approach can be seen in the expansion to the European markets, where Starbucks first arrived in England in 1998. Great Britain was a clear choice of a first European market as it is not only a developed country but also a country with the smallest cultural distance. Some years later it was followed by the entry into other developed markets, not only in Western Europe (Switzerland, Germany, Spain, France, Ireland, etc.) but also to different parts of Europe. Entering Austria as a second European country was a good strategic move as even though it is a Western country, it lies on the borders with Central Europe and thus allowed for a slow introduction of the company’s brand to tourists from surrounding countries. This built-up awareness later facilitated Starbucks’ introduction when it finally decided to open up its stores in the Central European countries 7 years later. Similar approach can be observed in the expansion to the Balkan Peninsula and Eastern Europe, where the company first entered a more developed and more touristic Greece, which was later followed by expansion to other neighboring countries.

<table>
<thead>
<tr>
<th>Year</th>
<th>Country of expansion</th>
</tr>
</thead>
<tbody>
<tr>
<td>1987</td>
<td>Canada</td>
</tr>
<tr>
<td>1996</td>
<td>Japan, Singapore</td>
</tr>
<tr>
<td>1997</td>
<td>Philippines</td>
</tr>
<tr>
<td>1998</td>
<td>England, Malaysia, New Zealand, Taiwan, Thailand</td>
</tr>
<tr>
<td>1999</td>
<td>China, Kuwait, Lebanon, South Korea</td>
</tr>
<tr>
<td>2000</td>
<td>Australia, Bahrain, Hong Kong, Qatar, Saudi Arabia, United Arab Emirates</td>
</tr>
<tr>
<td>2001</td>
<td>Austria, Scotland, Switzerland, Wales</td>
</tr>
<tr>
<td>2002</td>
<td>Germany, Greece, Indonesia, Mexico, Oman, Puerto Rico and Spain</td>
</tr>
<tr>
<td>2003</td>
<td>Chile, Cyprus, Peru, Turkey</td>
</tr>
<tr>
<td>2004</td>
<td>France, Northern Ireland</td>
</tr>
<tr>
<td>2005</td>
<td>Bahamas, Ireland, Jordan</td>
</tr>
<tr>
<td>2006</td>
<td>Brazil, Egypt</td>
</tr>
<tr>
<td>2007</td>
<td>Denmark, the Netherlands, Romania, Russia</td>
</tr>
</tbody>
</table>
## Timeline of Starbucks’ Market Expansion

<table>
<thead>
<tr>
<th>Year</th>
<th>Countries</th>
</tr>
</thead>
<tbody>
<tr>
<td>2008</td>
<td>Argentina, Belgium, Bulgaria, <strong>Czech Republic</strong>, Portugal</td>
</tr>
<tr>
<td>2009</td>
<td>Aruba, <strong>Poland</strong></td>
</tr>
<tr>
<td>2010</td>
<td>El Salvador, <strong>Hungary</strong>, Sweden</td>
</tr>
<tr>
<td>2011</td>
<td>Guatemala, Curacao, Morocco</td>
</tr>
<tr>
<td>2012</td>
<td>Costa Rica, Finland, India, Norway</td>
</tr>
<tr>
<td>2013</td>
<td>Vietnam, Monaco</td>
</tr>
<tr>
<td>2014</td>
<td>Brunei, Colombia</td>
</tr>
<tr>
<td>2015</td>
<td>Panama</td>
</tr>
</tbody>
</table>

**Figure 8 Timeline of Starbucks’ market expansion (Starbucks Corporation, 2015)**

Although there are many traits of the company’s expansion strategy that point towards the waterfall approach, it could be argued that due to the high number of countries entered in a short period of time the company could also follow the simultaneous approach. As previously mentioned, this strategy is generally faster and therefore creates the first mover advantage, which many companies seek to obtain. However, looking at Starbucks’ expansion timeline it is apparent that there is a structure to the expansion, which as discussed above, is based on regions and country clusters. Therefore it seems more likely that Starbucks uses a mixture of the two strategies, focusing on well thought-through within-cluster expansions, where countries from different clusters are entered simultaneously.

Moreover, the approach may change over time as the more present Starbucks is within a certain region, the faster it enters more countries in that region. This strategy resembles the shower approach as opposed to the more careful waterfall approach used when entering a new region.

When looking at Starbucks Corporation in terms of Solberg’s theory of the nine strategic windows, it can be established that the company has already gone through the different stages in terms of its readiness for internationalization and the globality of the industry.

Seen that Starbucks has opened its stores in 65 countries around the world, the company qualifies as being mature in internationalization. The retail beverage and food industry, in which Starbucks operates, can also be identified as global since the competition does not include only national firms but also large international chains, with international suppliers. Combining these two parameters, the suggestion for Starbucks according to Soldberg’s (1997) theory would be to strengthen its global position. This is consistent with the definition of the 9. strategic window, which indicates that the firm belongs to market leaders (Solberg, 1997).
However, as one of the global leaders, Starbucks needs to keep up with the fast changing environment and be quick to adapt to changes in order to maintain its position. The company needs to recognize the opportunities of new markets before the competition does. From this point of view, Starbucks is in the best position to proceed with its internationalization strategy.

5.2 Entry Strategies of Starbucks

5.2.1 Segmentation of Starbucks

As many internationally active companies, Starbucks too does not rely solely on stores owned by the company itself. Starbucks’ products are sold through different channels: company-owned stores, as well as licensed stores and grocery and foodservice outlets. However, before looking closer at the corporation’s channel use and entry modes, it is necessary to examine the structure that the company adopted so that it could better monitor the worldwide financial situation of its brands and to facilitate the decision-making process. (Starbucks Corporation, 2014a)

Starbucks Corporation focuses its analyses on five operating segments:

1. Americas – including the US, Canada and Latin America and the La Boulange retail stores
2. EMEA – Europe, Middle East and Africa
3. CAP – China and Asia Pacific
4. Channel development – including roasted whole bean and ground coffees, Tazo products, a variety of ready-to-drink beverages and other branded products sold in grocery stores, warehouse clubs, specialty retailers, convenience stores and US foodservice accounts
5. All other segments – consisting of the brands Teavana, Seattle’s Best Coffee, Evolution Fresh and the Digital Ventures business. (Starbucks Corporation, 2014a)

The revenue contribution of each segment can be seen in Figure 9, where the percentage corresponds to the portion of total net revenues for the fiscal year 2014 (which ended on September 28th 2014) (Starbucks Corporation, 2014a). We will, however, further concentrate mostly on the three geographic segments, as these are of interest for our market expansion topic.
As the chart shows, the biggest and the most mature segment is Americas, with a contribution of 73% of the total revenue. On the other hand, the EMEA and CAP segments each provide less than 10% of the net revenue and have not met their full potential yet. There are still markets within these two segments that are in their early developmental stages and thus require considerable organizational support. The necessary costs needed to support some of these markets might be higher than in the Americas as a result of higher store rents or expenses for adjustments that are required in order to meet the countries’ regulations. (Starbucks Corporation, 2014a)

Whether and how Starbucks decides to enter foreign markets or expands in an existing market depends on several factors. According to the corporation’s Annual Report 2014, these include the company’s “ability to access desirable local retail space, the complexity and expected ultimate size of the market for Starbucks, and ability to leverage the support infrastructure in an existing geographic region” (Starbucks Corporation, 2014a).

In December 2014, Starbucks held an investor conference where a five-year plan to stimulate the company’s profit growth was presented. As previously mentioned, the Americas segment is the company’s most mature segment and therefore needs to be well maintained in order to continue its stable growth. This should be accomplished by opening new stores and increasing the revenue by $7 billion. According to the group president, the biggest opportunity for the Americas segment lies in the food category, specifically in the offer of breakfast sandwiches. (Starbucks Corporation, 2014b)

Since the EMEA countries make up for 50% of the world’s coffee consumption, part of the plan is to double the number of stores in this region. Improvement of store economics, new formats and channels, as well as new strategic partnerships were mentioned as the most important drivers of this expansion. The president of the EMEA segment pointed out two
growth opportunities for the region: the drive-thru and roadside stores and licensing in grocery stores. (Starbucks Corporation, 2014b)

Starbucks’ plan for the CAP region is very optimistic as well. The segment was recognized as the biggest and fastest retail growth opportunity. The fact that the Starbucks brand is very strong in this region should aid the company in successfully achieving the plan of doubling the store count within the segment. Moreover, the CAP region includes the world’s second largest market, Japan, which the company intends to acquire into full ownership. (Starbucks Corporation, 2014b)

Although the channel development segment does not cover any specific region, it is necessary to point out how significant it has become for the corporation. As Figure 9 shows, 9% of the company’s total net revenue in 2014 was generated by channel development (Starbucks Corporation, 2014a). The reason for such success is Starbucks’ wide global distribution outside of retail stores. Its products are available in 39 countries, in over 1 million places other than the Starbucks retail stores. These include 120 000 grocery and convenience stores, 30 000 offices and 1 300 colleges and universities. Starbucks beverages are also available in certain hotel rooms, cruise ships and on the flights of Alaska and Delta Airlines. (Starbucks Corporation, 2014b)

Overall, Starbucks predicts that by 2019 it will achieve annual revenue of almost $30 billion and a global coverage made up of more than 30 000 stores. The corporation intends to reach these numbers by focusing on the following seven strategies:

1. Be the employer of choice – Starbucks is aware of the fact that 47% of people who think about buying at Starbucks do so on account of the customer and employee relationship. Therefore the company seeks to invest in employees who can offer the customers a superior experience.
2. Lead in coffee – The goal is to build and maintain a leadership position in all steps and areas of the coffee making and serving.
3. Grow the store portfolio – The store growth strategy is based on exploring different store formats and licensing opportunities around the globe.
4. Create new occasions to visit stores – With new product offerings created specifically for breakfast, lunch, afternoon and evening, customers will find more occasions to visit the Starbucks stores.
5. CPG brand growth – Grow consumer packaged goods by focusing on the Starbucks brand internationally.
6. Build Teavana – The corporation’s intention is to make Teavana into their second major business by pursuing the tea market, which is an industry of $109 billion. This is to be done by emphasizing on Tea Bars, tea formats and products in both Starbucks and grocery stores.

7. Extend digital engagement – Mobile commerce platforms should secure brand engagement and convenience by increasing the number of participating customers in My Starbucks Rewards, as well as by launching Mobile Order & Pay and Delivery. (Starbucks Corporation, 2014b)

5.2.2 Entry Modes of Starbucks

After having identified the segments around which Starbucks builds its strategic decisions, we can examine the different entry modes the company uses in its three geographic regions: Americas, EMEA, and CAP.

The blend of the company-operated and licensed stores at the end of the fiscal year 2014 (September 28th 2014) can be seen in Figure 10. The highest proportion of licensed stores is in the CAP region (76%), followed by the EMEA segment (62%). The ratio in the Americas is somewhat reversed, as the region contains more company-operated stores (59%) than licensed stores (Starbucks Corporation, 2014a). The fact that the Americas region has the highest amount of stores, over 14 000, corresponds with the previous chart, which pointed out that most of the revenues come from this segment. However, comparing the two charts, there is a discrepancy when looking at the EMEA and CAP segments. The number of stores in the China and Asia Pacific region is double that of the EMEA region and yet the EMEA segment generates somewhat higher revenue.
Another interesting aspect to look at is the composition of the net revenue by the channel usage. Almost all of Starbucks’ revenue is generated through company-operated stores, licensed stores, consumer packaged goods and foodservice operations. Figure 11 shows the contribution of the individual components to the total net revenue for fiscal year 2014. As the chart suggests, company-operated stores play the most important role in revenue generation. (Starbucks Corporation, 2014a)

We will now further discuss the two entry modes used by Starbucks, their specifics, usual locations and most importantly their allocation in relation to geographical segments.
Company-operated stores

Despite the fact that the ratio between the Starbucks-operated stores and the licensed stores is overall more or less the same (51% vs. 49%), 79% of the company’s total net revenues for the fiscal year 2014 came from the company-operated stores. (Starbucks Corporation, 2014a)

In order to reach such high numbers, Starbucks abides by its retail objective, which is “to be the leading retailer and brand of coffee and tea in each of our target markets by selling the finest quality coffee, tea and related products, and by providing each customer with a unique Starbucks Experience” (Starbucks Corporation, 2014a). The Starbucks Experience is nothing other than the company’s effort to build up and maintain high customer loyalty by providing exceptional customer service with the aid of clean and properly maintained stores that mirror the communities in which Starbucks conducts its business. (Starbucks Corporation, 2014a)

To help the stores thrive, the corporation supports the Starbucks Experience with other benefits such as free wireless Internet in many of the company-operated stores. The Starbucks Card is another example of an attempt to increase store visits by facilitating customer payments and gifting and at the same time receiving benefits through the related loyalty program My Starbucks Rewards. (Starbucks Corporation, 2014a)

When it comes to geographical dispersion, according to the company’s annual report 2014, Starbucks seems to be present in fewer countries with its company-operated stores than it is with licensed stores. Figure 12 shows the geographical markets by segment with the corresponding amount of company-operated stores at the end of fiscal year 2014. The charts clearly point out that the highest presence of Starbucks’ own stores is in the corporation’s home country, the US. On the other hand, regarding the EMEA and CAP segments it is necessary to mention that some of the company-operated stores in these regions were transferred to licensed stores. (Starbucks Corporation, 2014a)
Looking closer at the location of the company-operated stores within a specific market, Starbucks aims at establishing its stores in places with high traffic and visibility. These usually include downtowns, office buildings, retail centers, campuses of universities, locations near highways and other selected rural areas. Thanks to the company’s ability to adjust the stores’ format and size, it can easily adapt to the selected locations. Moreover, Starbucks continuously works on expanding the different formats of its stores in order to simplify the access and convenience for its customers. An example of this effort are the Drive Thru stores, more commonly seen in the US than in Europe. (Starbucks Corporation, 2014a)

The store location and size do not only have an impact on the store format but also on the mix of the offered products. Aside from a wide choice of coffee and tea beverages, these include packaged coffees, ready-to-drink coffees and teas, fresh food products, as well as equipment and accessories for preparation of beverages. (Starbucks Corporation, 2014a)

**Licensed stores**

Licensed stores make up for a much smaller revenue contribution than the company-operated stores. Only 10% of the net revenue at the end of fiscal year 2014 was generated by licensed stores. This phenomenon is generally caused by an increased operating margin for licensed stores as opposed to company-operated stores. Consequently, the company does not obtain the full amount of the store revenue but only its decreased share. The benefit Starbucks gains
from such deal is the cost reduction for the company as it is up to the licensee to carry most of the costs. (Starbucks Corporation, 2014a)

It is necessary to mention that the concept of Starbucks’ licensed stores is a bit different than the previously discussed entry mode of licensing. In this case, licensing is not a typical contractual agreement but reminds more of a joint venture, as the corporation does not provide its partners with only trademark or technology. What Starbucks offers is much more, including the original but customizable store design, the typical Starbucks menu with seasonal promotions, and strong ongoing support among other things. (Starbucks Coffee Company, 2016g)

The reason behind Starbucks’ store licensing is to profit from the local partner’s market knowledge in exchange for store operating and development experience. Starbucks usually cooperates with distinguished retailers who can aid the company in entering local markets and provide suitable retail space. In order for the licensee to operate in the standard Starbucks way, the corporation sells coffee, tea and other products to the licensee not only for their operational use but also for resale to customers. The company also provides the licensee with the necessary equipment, such as espresso machines and coffee brewers. Moreover, the licensee’s employees obtain trainings comparable to those given in company-operated stores and are obliged to follow Starbucks’ usual store operating processes. In return, Starbucks receives license fees and royalties from the licensee. (Starbucks Corporation, 2014a)

Additionally to store licensing, Starbucks Corporation addresses various potential business partners with its different offerings. The licensing options are targeted at channels such as business and industry, colleges and universities, fine dining, government and military, healthcare, hotel and lodging, office coffee, and travel and recreation. (Starbucks Coffee Company, 2016k)

For these partners, the company offers possibilities of cafeterias, cafes, public spaces and catering for business (Starbucks Coffee Company, 2016a), on-campus possibilities for college and university such as housing, coffee and snack areas, bakeries, convenience stores (Starbucks Coffee Company, 2016b), branded solutions benefits for fine dining, government and military in terms of full beverage portfolio, marketing, merchandising and recipe ideas (Starbucks Coffee Company, 2016c; Starbucks Coffee Company, 2016d), venue possibilities for healthcare such as patient, employee and visitor dining, doctor lounges and waiting areas (Starbucks Coffee Company, 2016e), venue possibilities for hotel and lodging in the form of restaurants, room service, in-room mini-bars, gift shops, lobbies and VIP lounges
(Starbucks Coffee Company, 2016f), in-transit service for the travel and recreation channel, as well as customer lounges, accommodations and vending (Starbucks Coffee Company, 2016h), and workplace options for offices such as portion packs, vending, and single cup brewers (Starbucks Coffee Company, 2016j). These Starbucks partners are free to choose among the corporation’s brands Starbucks, Seattle’s Best Coffee, Tazo, and Fontana in terms of which products they want to use in their business (Starbucks Coffee Company, 2016i).

Moreover, traditional franchising is used in some markets for the brands Starbucks, Teavana and Seattle’s Best Coffee (Starbucks Corporation, 2014a).

**Joint ventures in Europe**

The majority of the overseas Starbucks stores are licensed stores, where the partners are usually strong firms with background knowledge of the market. This strategy of carefully choosing a partner with previous market experience and proceeding with the same partner in entering other markets can be easily seen in European countries where licensed stores are run by a handful of companies. In these cases we can openly speak of joint ventures, as Starbucks’ involvement stretches out beyond contractual agreements.

Figure 13 summarizes Starbucks’ joint venture partners in European markets in alphabetical order. The fact that there are only a couple of companies with which Starbucks has teamed up in order to enter foreign markets proves that the corporation is careful in identifying its partners and prefers quality and trust gained over time to quantity. We will now take a closer look at each of the partners.

<table>
<thead>
<tr>
<th>Partner</th>
<th>Country</th>
</tr>
</thead>
<tbody>
<tr>
<td><em>AmRest</em></td>
<td>Czech Republic, Poland, Hungary, Bulgaria, Romania</td>
</tr>
<tr>
<td><em>Autogrill</em></td>
<td>Belgium, Netherlands, Denmark, Ireland, France</td>
</tr>
<tr>
<td><em>Grupo VIPS</em></td>
<td>Spain, Portugal, France*</td>
</tr>
<tr>
<td><em>Marinopoulos Group</em></td>
<td>Greece, Cyprus, Romania, Bulgaria, Switzerland*, Austria*</td>
</tr>
<tr>
<td><em>SSP</em></td>
<td>UK, Spain, France, Germany, Switzerland, Sweden, Norway, Finland</td>
</tr>
<tr>
<td><em>Umoe Restaurants</em></td>
<td>Norway, Sweden</td>
</tr>
</tbody>
</table>

*Figure 13 Starbucks' joint venture partners in Europe*
AmRest is the largest operator of restaurants in Central and Eastern Europe, who has been growing its international presence and portfolio of well-recognized brands since 1993. It is a Polish company that engages in franchises and joint ventures with powerful brands such as Pizza Hut, KFC, Burger King and Starbucks. The firm runs more than 900 Casual Dining and Quick Service restaurants nowadays. (AmRest, 2016a)

By the time AmRest entered into a joint venture with Starbucks, it has already had experience with the Polish, Czech, Hungarian, Bulgarian and Serbian markets thanks to its presence with KFC, Pizza Hut and Burger King restaurants. AmRest opened the first Starbucks store in Czech Republic in 2008. It was Starbucks’ well thought through strategic move to choose a location at the heart of Central Europe so that it could follow with expansion to other CEE countries. In 2009 a second country was reached with Starbucks, the home of AmRest, Poland. This was a long awaited step as the coffeehouse segment in Poland was the fastest growing culinary sector in the country (Starbucks Corporation, 2009b). A year later, Starbucks spread its partnership with AmRest to the Hungarian market. Later on, stores in Bulgaria and Romania were opened as well. Since the establishing of the first Starbucks store, AmRest acquired new market knowledge by serving Slovakia, Slovenia, Spain, France and other countries with various brands. (AmRest, 2016b; Starbucks Corporation, 2016b)

Autogrill is a “leading global operator in food and beverage services for travelers” (Autogrill, 2014g). The company focuses on serving its customers especially at airports, railway stations, motorways, and service areas but also in shopping malls and museums in 31 countries in North America, EMEA, and Asia and Oceania (Autogrill, 2014g; Autogrill, 2014h). It operates stores with a portfolio of 250 local and international brands including own and licensed brands, such as Brioche Doree, Buffalo Grill, Burger King, and Starbucks to mention a few (Autogrill, 2014g; Autogrill, 2014b).

The firm was established in Italy in 1947 as a concept for motorists. It began with its international expansion in early 1990s in North America, France and Spain, which was later followed by the entry to other countries, such as Belgium, Netherlands, Austria, Germany, and Switzerland. Since 2005 Autogrill has managed to establish its presence in other European and overseas markets. (Autogrill, 2014d).

Autogrill’s cooperation with Starbucks began in 1991 with the opening of the first Starbucks stores in the US and Canada (Autogrill, 2014f). Several years later, in 2003, the partnership extended to Europe, when new store was established at the airport in Netherlands
(Autogrill, 2014c). Since then the expansion continued into travel channels in France, Denmark, Ireland, and Belgium (Autogrill, 2014f; Autogrill, 2014a). Nowadays, there are over 400 licensed Starbucks stores operated by Autogrill in 8 countries of Europe and North America. (Autogrill, 2014f; Autogrill, 2014e)

Grupo VIPS is a Spanish company operating in the retail and restaurant industry in Spain and Portugal, where it enjoys a portfolio of various own and licensed brands, including T.G.I. Friday’s, Ginos, h3, The Wok, and Starbucks. The company was established in 1969 in Madrid and over the years slowly spread across other Spanish cities. The collaboration with Starbucks did not start until much later, when Grupo VIPS opened the first Starbucks store in Spain in 2002. Two years later, another 50-50 joint venture with Starbucks was established, this time in France. The company first entered the Portuguese market in 2008, when it extended its partnership with Starbucks to the neighboring market. (Grupo VIPS, 2012)

In 2009, however, Starbucks decided to buy off Grupo VIPS’s French joint ventures and turn them into company-operated stores, leaving the Spanish firm with exclusive rights for the management of Starbucks stores in Spain and Portugal (Starbucks Corporation, 2009a). Grupo VIPS currently operates 90 Starbucks stores in Spain (Grupo VIPS, 2015a) and 11 stores in Portugal (Grupo VIPS, 2015b).

Marinopoulos Group is a Greek diversified company with operations in manufacturing, retail, apparel and specialty coffee business. The retail sector is of particular interest as the group is the leader in food retail in Greece, Albania, Bulgaria, Cyprus and other Balkan countries. (Marinopoulos, 2008a)

The beginning of the Marinopoulos Group lied in the establishment of the Marinopoulos pharmacy in 1893, which several decades later evolved into a group. The company started to diversify in 1962 when it launched its first supermarket and continued in 1982 with the opening of its first cosmetics store. The cooperation with well-known international brands, such as Marks & Spencer and Carrefour, started in 1990s in the Greek market. With these companies, Marinopoulos expanded into the Balkan territory, Switzerland, Austria, Italy, Cyprus, and France in years 2000 and 2001. The first time it formed a joint venture with Starbucks was in 2002 in Greece. Only a year later, the same partnership opened stores in Austria and Switzerland. Following the successful collaboration, Starbucks decided to enter
the Romanian market with its trusted partner, the Marinopoulos Group, in 2007. (Marinopoulos, 2008b)

Establishing its presence in Romania was a big strategic step for Starbucks as it was the first country in Central and Eastern Europe that Starbucks entered. The idea was to expand into Eastern Europe from there. Entering into a joint venture with the Marinopoulos Group was a well-planned decision as the corporation had already had previous experience with the Greek company in not only the Greek, Austrian and Swiss markets but also in Cyprus. (Starbucks Corporation, 2007)

The growth in Eastern Europe continued in 2008, when the two companies started to serve the Bulgarian market. At that time, the joint ventures of Starbucks and the Marinopoulos Group operated about 145 stores in five countries. (Starbucks Corporation, 2008b)

In 2011, Starbucks decided to turn the Austrian and Swiss 50-50 joint ventures into company-owned stores by buying the shares of its partner, the Marinopoulos Group. The reasoning behind this decision was that Starbucks’ infrastructure, expertise and systems in the EMEA region would be better leveraged this way. The Starbucks stores in Greece, Cyprus, Romania, and Bulgaria kept their old structure and are still operated by the Marinopoulos Group. (Starbucks Corporation, 2011a)

**SSP** belongs to the leaders in beverage and branded food outlet operators in travel locations around the globe. The company is a Food Travel Expert present in 29 countries with the most common locations being airports and railway stations. It manages cafes, restaurants and bars in the travel sector. The group owns a wide portfolio of bespoke, local, national and international brands including M&S Simply Food, Burger King, Le Grand Comptoir, WHSmith, and Starbucks among others. (SSP Group, 2016a; SSP Group, 2016b)

The collaboration between SSP and Starbucks started in 2008 when the two companies decided to enter together the European markets (SSP Group, 2016c). It was a smart strategic move from Starbucks’ side as SSP had over 60 years of experience in the travel sector and the corporation was searching for a partner with whom it could enter the prime travel channels in Europe (SSP Group, 2016a; Starbucks Corporation, 2008a). It was the British company who established the first Starbucks store in Sweden in 2010 (Starbucks Corporation, 2012b). In 2012, with the help of SSP Starbucks licensed stores reached the Norwegian and Finish markets, shortly after a successful launch of the Starbucks bottled beverages in the local grocery stores (SSP Group, 2016c; Starbucks Corporation, 2012c). Besides the Nordic
countries, SSP operates Starbucks coffee houses in the UK, Spain, France, Germany, and Switzerland at airports and rail stations (SSP Group, 2016c; Starbucks Corporation, 2011b).

**Umoe Restaurants** is a Norwegian chain that owns more than 330 cafes and restaurants and is thus the leader in the local market. The company manages subsidiaries of well-known brands such as Burger King, Peppe Pizza, T.G.I. Friday’s, La Bguette, Starbucks and others. (Umoe Restaurants AS, 2016a)

The group was established in 1975 after a merger of two catering companies. However, it was not until the early 1990s that the company started to cooperate with international brands. In 1996 Umoe Restaurants has expanded its subsidiaries to the neighboring Swedish market. Over the years, it has gained more experience by operating various service establishments in the two countries. Therefore it was not a surprise when in 2012 Starbucks announced its partnership with the Norwegian company and its plans to open stores in the Scandinavian region beyond the already served travel location. Nowadays the Umoe Restaurants operate Starbucks stores in Norway and Sweden. (Starbucks Corporation, 2012a; Umoe Restaurants AS, 2016b)

The analysis of Starbucks’ business partners shows that the company does indeed select partners for its licensed stores based on their experience with not only the local markets but also with collaboration with other international brands. First of all though, Starbucks seems to choose their potential markets based on their location (e.g. entry gate into a new region versus expansion in the region) and the coffee culture of the country. Then it decides whether the market is ready for a proper introduction of the Starbucks stores, e.g. in city centers and other popular areas as was the case in Spain (Starbucks Corporation, 2016a), or whether a more careful approach is suitable, such as introducing the brand to airports and railway stations first and thus targeting the international travelers and opening stores in downtown later, as e.g. in Sweden (Starbucks Corporation, 2012b). After the decision of market entry is made, Starbucks examines whether any of its already established partnerships could be extended into a new market, as this is part of the company’s international growth strategy (Starbucks Corporation, 2008b).
5.3 Slovakia, the next potential market?

The analysis of Starbucks’ market coverage shows that Slovakia belongs to one of the few Central and Eastern European countries untouched by the presence of Starbucks’ coffee houses. According to the OECD, the CEE region includes the following countries: Albania, Bulgaria, Croatia, the Czech Republic, Hungary, Poland, Romania, the Slovak Republic, Slovenia, and the three Baltic States: Estonia, Latvia and Lithuania (OECD, 2001).

![Figure 14 Starbucks' market coverage in Europe (Starbucks Corporation, 2015)](image)

So far the corporation has not expanded its business into Albania, Croatia, Slovakia, Slovenia, Estonia, Latvia and Lithuania, whereas when looking at the map of the world (Figure 14), it is apparent that all of Slovakia’s neighboring countries, with the sole exception of Ukraine, have been served by Starbucks for more than four years. This brings us to the question whether the Slovak Republic could potentially be the next target for Starbucks’ market expansion in this region. Let us examine this topic step by step by searching for answers to the four questions that determine the company’s entry strategy, all in regards to Slovakia: Where to expand? What to achieve in the selected country? When to enter the country? How to enter?

5.3.1 The CAGE distance framework

We have already established that when deciding which country a company should enter, it should take into consideration the four dimensions of distance. The analysis of the cultural, administrative, geographic, and economic distance can either increase or decrease the attractiveness of a country (Ghemawat, 2001).
According to Ghemawat (2001), the four types of distance need to be considered in terms of home and host country. However, seeing that a company has already entered a region, the more appropriate way might be to compare the potential new market with those in which the firm has already established its presence. This would be the case of Starbucks in Central and Eastern Europe.

The Starbucks coffee houses have been open in several of the CEE countries for a couple of years now. When analyzing the Slovak market in terms of the CAGE distance framework, the most suitable approach may be to use the Czech Republic as a reference point, since Starbucks is already present in the Czech market. Slovakia and the Czech Republic used to be one country, which split in 1993. They are culturally very close in terms of their religious beliefs, race, social norms and the languages are very much alike as well. The coffee culture too is very similar and the two countries share a lot of the same cuisine, which might be an important indicator for Starbucks in terms of the industry sensitivity. To underline the cultural closeness of the Central European countries, Slovakia shares some of these features with Poland as well, although in less extend. However, the corruption in Slovakia is rather high, although the country is not as famous for it as for instance Romania, where Starbucks is already present. An advantage of entering the Slovak market is that the country is a part of the European Union and although the Central European countries have all different currencies, Slovakia is the one exception where Euro has been in use since 2009.

When looking at the map in Figure 14, there is no question about the geographical closeness of Slovakia to other countries served by Starbucks. On the contrary, Slovakia lies in the heart of Central Europe, in between its neighbors, who all but one enjoy their own Starbucks coffee houses. Moreover, the capital Bratislava is an important crossroad and is in close proximity of other Central European capitals. As the Slovak Republic is a rather small country both in size and in population, the average distance to borders within the country is not larger than in other European countries. Although the country does not have access to sea or ocean, the terrain is rather friendly in terms of transportation, even though the roads are not of the best quality.
The comparison of Slovakia and Starbucks’ home country, the USA, would show a considerable economic distance. However, in terms of Central and Eastern Europe, the countries are very similar. The Slovak Republic is not a very wealthy country, although compared to other Eastern European countries it is more of a grey average. The wages are incomparably smaller than in Western European countries, even in comparison to its neighbor Austria. The low cost of human capital attracts many foreign companies to open their subsidiaries and shared service centers in Slovakia, as the workers are cheap but qualified. On the other hand, cost of living in Slovakia is rather high when compared to other European cities, allowing companies to exercise a possibly higher profit margin. After looking at all four dimensions of distance, it could be argued that the Slovak Republic is a rather attractive country for an international company such as Starbucks, especially since the corporation has already established its presence in the region.

5.3.2 Country attractiveness analysis

As the theory suggests there are three major areas to consider when looking at the attractiveness of a country: market opportunities, industry opportunities and country risks (Lasserre, 2007). We will now look at these factors with regard to Slovakia and compare them with those of other countries where Starbucks has already established its presence.

Market opportunities

The market opportunities show the demand potential of a country, which is determined by the size and the growth of the market (Lasserre, 2007). Therefore we will now turn to some of the OECD indices, which will provide us with more detailed information on Slovakia.

With the population of 5.4 million inhabitants, Slovakia belongs to the smaller European countries, comparable to the size of Ireland (4.6 million), Norway (5.1 million), Finland (5.4 million), and Denmark (5.6 million). In terms of the Central European region, it is the smallest country, as the neighboring Hungary has a population of 9.9 million, Czech Republic has 10.5 million and Poland being the largest with 38.5 million as of 2013. (OECD, 2015b) In 2014, the Gross Domestic Product of Slovakia represented 28 327 US$ per capita, which was higher than the GDP of Poland (24 952 US$), Hungary (25 061 US$) and Greece (25 950 US$) but lower than the GDP of Portugal (28 760 US$), Czech Republic (31 188 US$) and the countries of Western and Northern Europe (OECD, 2015a).
The real GDP forecast estimates the growth rate of a country by assessing the country’s economic climate and the world economy. For Slovakia, Poland and Ireland it projects an increase of GDP by 3.5%, which is one of the highest growths in the EU. Hungary’s forecast indicates a growth of 3.1%, while the growth of Czech Republic is forecasted to be only 2.4%. All other Western European countries predict a smaller increase in their GDPs. (OECD, 2016c)

Although it is rather difficult to evaluate the specific market for the potential demand for Starbucks, the information on the soft drinks sales growth might provide us with some sense of direction in which we could expect the market to develop. In 2015, the soft drinks sales grew by 2.8% and are predicted to grow even more, by about 3.4% by 2019 (Business Monitor International a Fitch Group Company, 2016a).

**Industry opportunities**

When examining the industry opportunities, we need to take a closer look at the competitive environment (Lasserre, 2007). Starbucks sees its main competitors in specialty coffee shops and quick-service restaurants (Starbucks Corporation, 2014a).

The first fast-food restaurant that opened in Slovakia in 1995 was McDonald’s (McDonald’s, 2016). It quickly became popular as for a long time it was the only place of its kind where one could enjoy a quick bite and a beverage. Therefore it is deeply rooted in consumers’ minds even nowadays. Although the company primarily sells food, they offer several coffee variations as well and for those who wish to grab a coffee on the go, McDonald’s has become one of the places to visit.

It is important to note that in terms of coffee culture in Slovakia, the concept of buying a cup of coffee and drinking it on the way is not as common as in the US. People prefer to sit down and enjoy their beverage, maybe with a little dessert, while socializing with other people. Therefore more of a direct competition is the Austrian coffee house chain Coffeeshop Company. This firm resembles Starbucks with its structure, as it offers a wide variety of coffee and other beverages, either to drink in-house or on the go, as well as some desserts and other snacks. Coffeeshop Company first opened in Austria in 1999 but later expanded to mostly neighboring countries (Coffeeshop Company, 2014). It entered the Slovak market in 2008 (Coffeeshop Company, 2014). However, as the brand was not very well marketed and has not differentiated itself from other coffee houses, it has not created an image to remember in the minds of Slovak consumers.
Another Austrian coffee chain that has been present in the Slovak market for decades is **Julius Meinl**. The company dates back to 1862, when the first store opened in Vienna (Julius Meinl, 2016). Its subsidiaries reached Slovakia as early as 1902 but had to be closed due to the political regime (Janků, 2002). The group returned to the market in 1992 (Janků, 2002). Thanks to its long history, Julius Meinl coffee has become traditional and is associated with the Viennese coffee house culture, which suggests a certain standard and comfort as opposed to Starbucks’ on the go possibility.

A bit more untraditional but a competitor nonetheless could be the German company **Tchibo**. It first entered the Czechoslovak market in 1991 as a coffee vendor but it was not until 2008 when the first store opened in Slovakia (Tchibo, 2016). Although Tchibo’s concept is a bit different as it primarily sells its own packaged coffee brands and offers a variety of different non food products, it also presents its customers with the possibility of buying freshly made coffee and desserts either for in-house consume or to go.

However, the probably most popular coffee spot for young people nowadays is the Slovak coffee house **Štúr** (previously called Shtoor). Although at this time its only home is the capital, the company owns four trendy stores there (Cafe Štúr, 2016). The success of the company is most likely connected not only with quality cakes, coffee and other beverages but also with branding. The concept of “Shtoor home made cafe” first arrived in 2010 with the first store in downtown Bratislava (HNonline, 2013). It is based on Slovak history, to which contributes the name of the brand and the authentic language used in the menus, as well as the design of the stores. Thanks to its originality and quality, the stores are a beloved place for the locals.

**Country risks**

It is necessary to examine not only the opportunities for a company in a certain market and industry but also to analyze the political, economic, competitive, and operational risks of the country before the firm decides whether to enter the market or not (Lasserre, 2007). Therefore we will now take a closer look at the specifics of Slovakia.

Slovakia is a parliamentary democratic republic, which gained its independence in 1993 after the split of Czechoslovakia. It has been a member of the European Union and NATO since 2004. The country is also a member of the United Nations, World Trade Organization, OECD and the Visegrad Four, which is a forum consisting of Slovakia, Czech Republic, Hungary and Poland for discussing common concerns. The leading parties in the Slovak parliament
usually include social democrats, however other parties such as Christian democrats, Slovak nationalists and pro-Hungarian parties are also present in the country. Although 86% of population is Slovak, a Hungarian minority of 10% lives in the south of Slovakia (Slovak-Republic.org, 2016). In spite of the politicians pointing out Slovak-Hungarian problems, in reality there is rarely any nationalistic unrest. Slovakia also has a 2% population of the Roma ethnicity, which is not very well integrated into the social and working life but does not pose any threats to companies (Slovak-Republic.org, 2016). Moreover, unlike some other countries that are famous for strikes, the Slovak Republic is usually a calm country where strikes are more of an exception.

In terms of economic situation, Slovakia is one of the countries that have been on the rise since the fall of socialism. The entry into the EU and to the Schengen area has facilitated the movement of people and goods within the area. Not having to wait in line when going through borders due to their nonexistence in the Schengen area saves time and costs of transportation. Moreover, the adoption of Euro in 2009 has made trade with other countries in the Euro zone easier. Around 70% of FDI inflows are from the Euro Area (The World Bank Group, 2016). In this way Slovakia tried to get closer to its Western neighbors, as it is for now the only country using the Euro currency in the Central European region. However, when comparing the exchange rates of Euro and USD, as this may be of interest in regards to Starbucks, Euro has weakened its position in the past years, especially in 2014 and 2015, when 1 EUR = 1.36 USD as an average in 2014 while in 2015 the average was even lower for Euro: 1 EUR = 1.11 USD (European Central Bank, 2016). Nonetheless, the Slovak economy has grown in the past years, which can be seen from the GDP growth indicators. While the GDP growth in 2013 was at 1.4%, in 2014 it reached 2.5% and the estimate for 2015 is 3.1% (The World Bank Group, 2016). If it goes as projected, GDP should reach a growth of 3.5% within the next year or two (The World Bank Group, 2016). Another positive fact for Slovak economy that boosts domestic demand and raises the wage growth is falling inflation (Business Monitor International a Fitch Group Company, 2016b). Inflation as measured by the consumer price index is currently at -0.3% of annual growth rate, which puts Slovakia in a position between Finland (-0.34%) and Ireland (-0.16%) (OECD, 2016b).

When looking at the competitive risks, Slovakia does not have any cartels or company networks that could be of threat to Starbucks’ entry or activity in the local market. However, potential risk for companies doing business in Slovakia could stem from corruption, which is present in all government areas and bureaucratic reforms and could pose difficulties when
opening and closing business, bidding for public contracts, or trying to resolve contractual conflicts (Business Monitor International a Fitch Group Company, 2016b).

However, what is important for companies who wish to enter the Slovak market in terms of operational risks is that Slovakia is generally welcoming to foreign direct investment and poses only few regulatory restrictions (Business Monitor International a Fitch Group Company, 2016b). As the banking sector is rather strong, the access to financing is not very problematic. The most problematic factors for doing business in Slovakia according to an OECD economic survey are bureaucracy, corruption, labor practices, policy instability, tax rates, infrastructure and tax regulations (OECD Publishing, 2014a). In terms of infrastructure, some sectors are more developed than others. The element, which seems to pose a barrier for companies, is transport (OECD Publishing, 2014a). Slovakia has been trying to modernize the road transport system by improving and building more roads and highways in order to connect the regions with high unemployment rate and lower economic performance with the more developed areas (OECD Publishing, 2014a). According to the latest information from 2015, the unemployment rate in Slovakia is with 11.5% higher than in most countries of the EU but lower than in Portugal, Spain, and Greece (OECD, 2016d). The most developed region with the lowest unemployment rate is the Western part of Slovakia, with the biggest and capital city Bratislava (over 400 000 people), where most of the companies concentrate. Regarding the tax barriers, it is the tax burden on companies that is rather high in Slovakia due to increased corporate taxes and higher social security contributions (OECD Publishing, 2014a). Taxes on the average worker, which include personal income taxes and employers’ and employees’ contributions, represented in Slovakia in 2012 around 39.6% of workers’ labor costs (OECD Publishing, 2014b). Regulations, which were making it difficult for companies to do business in Slovakia, have been reduced in the last years, turning Slovakia to one of the most interesting countries for business expansion. However, there are still areas that could be improved such as the transparency and efficiency of the judicial system, which might be again connected with corruption (OECD Publishing, 2014a).

Now that we have looked at the opportunities that Slovakia offers and the risks associated with doing business in the country, it is necessary to summarize the results in order to see whether Slovakia could be a suitable market for Starbucks. Judging from the market and industry opportunities, the downside is the size of the Slovak market, which is probably one of the reasons why Starbucks has not entered the market yet. On the other hand, there are
smaller countries in population that have already been served by Starbucks. Therefore this should not be the reason why not to enter Slovakia. Moreover, the market growth prediction looks promising for the upcoming years, which is even more pronounced when compared to other European countries. As the country has developed economically in the past years, it has created better opportunities for entrepreneurs to expand their business and thus the competition in the coffee retail sector has grown as well. However, the market is not yet saturated in such an extent that there would not be a place for a new entrant. Despite these positive facts, there are also risks of which firms need to be aware before deciding to expand to Slovakia. These are mostly related to corruption and bureaucracy, which however do not pose an insurmountable problem. Therefore based on the country attractiveness analysis, Slovakia could become the next potential market for Starbucks.

5.3.3 Entry objectives

The entry objectives answer the question of what the company wants to achieve in a specific country, in this case Slovakia. According to Lassere’s (2007) theory, the four objectives for entry are market development, access to resources, learning, and coordination. In order to determine what objectives a firm might seek in a new market, it is necessary to analyze both the company and the market.

As Starbucks is a corporation that specializes in coffee roasting and retail, it will not want to expand to Slovakia in order to gain access to resources. These usually represent natural or human resources (Lasserre, 2007). Since Slovakia does not grow any coffee beans, there is not much it could offer to a company such as Starbucks in this area.

The learning objective is usually followed by technology-oriented companies, who seek markets with good technological infrastructure and know-how (Lasserre, 2007). Considering that Starbucks does business in a completely different sector, learning will most likely not be the driver for entering Slovakia.

Some firms look for new markets, where they could establish their headquarters, training centers or representative offices and therefore follow the coordination objective (Lasserre, 2007). Starbucks’ headquarters for Europe, Middle East and Africa is in the UK, which is the company’s largest and fastest growing market in Europe (Starbucks Corporation, 2016c). It had moved there in 2014 from its previous location, the Netherlands, where Starbucks still keeps its coffee roasting plant (Starbucks Corporation, 2016c). Considering these facts, Slovakia would not be a suitable country when following the coordination objective.
Many companies simply wish to develop their markets and therefore look for new countries, where they could gain market share (Lasserre, 2007). However, not all markets are equally potent as the market size and the quality of the customer base are strong determinants of potential success (Lasserre, 2007). When looking at the size of the Slovak Republic, it is evident from the country attractiveness analysis that the country belongs to the smaller European markets. Taking into consideration the fact that Slovakia being one of the CEE countries is not very rich and the size of the country, it is not that surprising that Starbucks has not entered the market yet. The company most likely wanted to start introducing its brand in bigger Central European countries, where it has a potential of gaining more market share and only once it has successfully established its presence in those markets, starts looking for options in other smaller countries within the region. Moreover, as the country attractiveness analysis suggests, there are other countries of the population size of the Slovak Republic, which already have their Starbucks stores. Therefore from this point of view, Slovakia could be the next market for the corporation if its entry objective is market development.

5.3.4 Timing of entry

The point in time in which a company enters a new market can be crucial for the success of the company. On one hand there is the choice of being a first versus a late mover, on the other the window of the opportunity needs to be considered (Lasserre, 2007; Peng, 2009).

When looking at the Slovak Republic from the historical point of view, the market was in a premature phase during socialism, as it was not ready for what coffee houses such as Starbucks had to offer and the political regime did not allow for much foreign investment. This phase lasted approximately until the split of Czechoslovakia.

After the year 1993, the country has slowly started to welcome more and more international firms. This was the window phase for first movers, when there was not much competition present although the market had just opened (Lasserre, 2007). An example of a foreign company, who took the chance of the window phase and became the first quick-restaurant on the Slovak market, is McDonald’s.

However, it was mostly after Slovakia’s entry into the European Union in 2004, when more coffee companies started to open up their stores in Slovakia. It was around that time when the competitive growth phase started, in which firms need to be able to differentiate themselves as the competitions gets more fierce (Lasserre, 2007). If a market reaches this phase, it might be
wiser for the international company to enter the market via a joint venture or acquisition (Lasserre, 2007).

The fourth and final phase would be a mature market with very tough competition, which would be almost impossible to enter in a way other than through an acquisition (Lasserre, 2007). However, this is not yet the case of Slovakia. Judging from the country attractiveness analysis and Starbucks’ competitors in Slovakia, its market is still in the competitive growth phase.

Therefore, in this case Starbucks will be a late mover should it decide to enter the market. The advantage is that the market is now more ready for Starbucks’ coffee houses as the people too have learned to enjoy their spare time by sitting down and socializing over a cup of coffee or in some cases grab a coffee on the go, especially if it is during their lunch break from office hours. Thus it might be easier for Starbucks to enter the Slovak market from this point of view. On the other hand, the company will have to compete for market share with the firms that have been in the market for a longer time, especially with companies such as the local Štúr or the international Coffeeshop Company.

5.3.5 Proposed entry mode

Once we had analyzed the pros and cons of the potential market and decided we wanted to enter this country, we set the entry objectives. Then we examined the phase in which the market is currently positioned and established a timing of the entry. Now all that needs to be done is to evaluate the factors that will help us chose an entry mode for the market.

As described in the theoretical part, there are four factors that influence entry mode decisions. First we need to take a look at the internal factors. Starbucks Corporation is a large international firm with net revenue of $16.4 billion (in fiscal year 2014), employing over 190,000 people in more than 22,000 stores, store development, support facilities, distribution operations, warehousing, roasting and manufacturing in 65 countries around the world (Starbucks Corporation, 2014a). Thanks to the size of the company and its high international involvement and experience, the uncertainty of entering new markets and the associated costs are lowered, which according to Hollensen (2011) points towards the use of hierarchical modes, such as joint ventures and wholly owned subsidiaries.

The external factors that we need to examine are the factors associated with the potential market. The sociocultural distance is one of the elements that need to be considered. As previously mentioned, in case of a highly internationalized company it might be more
appropriate to compare distance not between the home and the host market but between the already entered markets in the same region with the new potential market. Since Starbucks has already established its presence in Central Europe and, as evident from the CAGE distance analysis, the distance between Slovakia and the surrounding countries is rather small, it leads to a lesser uncertainty, which consequently influences the entry mode decision. However, we also need to consider the country risks and demand uncertainty. The country attractiveness analysis showed that Slovakia is open to foreign companies doing business in the country but they need to be aware of the corruption and bureaucratic practices. The question of the potential demand does not provide a straightforward answer, however, looking at the competition and the phase in which the coffee market currently stands, it could be presumed that the market has a potential of welcoming a new entrant. When looking at the market size and growth of Slovakia, the leading factor could be the good prognosis for the GDP growth of the country although the size of the market ranks among the smaller European countries. Finally, considering the direct and indirect barriers, the situation in Slovakia is not restricting to foreign direct investment. Therefore when looking at the external factors, the contractual agreements and joint ventures present good options for entry modes as the small size of the market, some uncertainty in demand, and corruption and bureaucracy do not support the entry via wholly owned subsidiaries.

The desired more characteristics include factors such as risk-aversion, desired control over operations, and flexibility (Hollensen, 2011). Considering all facts that we know about Starbucks’ market expansion strategy and the use of its entry modes, it can be assumed that there are markets in which the company is more confident about the entry than in others. In most of the unfamiliar countries however, the firm relies on experienced partners with which they share both commitment and risk. Thus the company tries to make a trade-off between being involved in the market and exploiting all its options and profits, while exercising control over the operations but still having the possibility of a somewhat easier market exit if necessary.

Lastly, the theory on transaction-specific costs shows that if a company wishes to keep the costs to a minimum and at the same time owns know-how that is hard to transfer and express firms will try to choose one of the hierarchical modes of entry (Hollensen, 2011). Seeing that Starbucks is capable of transferring and sharing its know-how, it does not need to enter the market directly through wholly owned subsidiaries but can opt for an entry via joint ventures.
When comparing Starbucks’ entry mode strategy with the analysis of the factors, which influence entry mode decisions, we come to the conclusion that a market entry through licensed stores would be the best option for Starbucks. As the analysis of Starbucks’ business partners in Europe suggests, it is important for the corporation to expand to new markets with strong and trustworthy partners, preferably with whom the company has had previous experience. These partners, however, need to have prior knowledge and experience with the local market. Therefore when looking at existing partners with whom Starbucks has already formed joint venture partnerships, the most interesting regarding the entry to the Slovak market is the group AmRest. In 2008 AmRest announced it would enter Slovakia for the first time with the brand Burger King (AmRest, 2016d). Although the first Burger King stores were established in 2010, they were closed shortly after, at the end of 2011 (HNonline, 2014). Another option for a partner who has had more successful experience with the Slovak market could be Queensway, a British company with focus on hospitality industry, which has managed 6 KFC and 3 Pizza Hut stores in Slovakia since 2005 (Queensway Group, 2012c) (Queensway Group, 2012a) (Queensway Group, 2012b). However, as Starbucks does not work with Queensway in any other country, it is highly probable that the corporation will rely on an existing partner, despite the fact that AmRest does not currently operate any other retail stores in Slovakia. The final decision factor though will most likely be the fact that AmRest is Starbucks’s trustworthy partner in the Central European region.

6 Conclusion

The determination of a company’s market entry strategy is a complex process. Firms have to evaluate different factors associated with the company itself, the industry in which it operates, the potential markets and their attractiveness, the phase of the market with regards to timing, the different modes of entry with their advantages and disadvantages, and the expansion methods in order to come to a decision on what the best strategy for the company would be. From the analysis of Starbucks Corporation we have learned that the company truly belongs to market leaders as it is a mature firm in a global industry, in which case according to Solberg’s (1997) Nine strategic windows theory the company should strengthen its global position. The corporation uses a combination of the waterfall and shower approach when expanding into foreign markets. The use of the different methods depends on whether the firm enters a new market in a yet unserved region or whether it already established its presence in
some other country within the area and just searches for expansion within that region. Moreover, we have learned that most of Starbucks’ strategic decisions are based on the three geographic areas: Americas, EMEA, and CAP, which facilitates the analysis of the entry modes. The corporation enters markets either via company-operated stores or licensed stores. Company-operated stores are prevalent in the Americas segment, whereas in the EMEA and CAP region Starbucks prefers to establish its presence through licensed stores. The analysis of the European market showed that the company’s strategy is to expand its market presence with the help of existing and trustworthy joint venture partnerships, where the partners possess previous knowledge of the desired market and are experienced in working with international brands.

We have examined and analyzed the potential Slovak market in terms of the four dimensions of distance, where the Czech Republic was used as a reference country for comparison instead of Starbucks’ home country, the USA. This decision was based on the fact that Starbucks has already established its presence in the neighboring countries of the CEE, the Czech Republic, Hungary, and Poland. The CAGE distance framework showed that Slovakia is very close to the Czech Republic and other Central European countries in terms of all four types of distance. Moreover, after the evaluation of Slovakia’s attractiveness with regard to the market and industry opportunities and country risks, it can be concluded that despite the country’s rather small market size and thanks to the progress of Slovak economy in the past years and the openness of the country to foreign investors, Slovakia could welcome a new entrant in the coffee retail business. The potential risks of which Starbucks needs to be aware are mostly associated with corruption and bureaucracy. However, if the company wants to follow the market development objective in the CEE region, Slovakia should definitely be considered as the next option. The supportive fact is that the Slovak market is currently in the competitive growth phase and even though Starbucks would be a late mover as there are already competitors present in the market, the advantage is that the coffee culture is also more developed. After examining the four factors that influence entry mode decisions and considering the strategy that Starbucks follows in the entry to European markets, we can presume that the best mode of entry to the Slovak market would be with licensed stores. Based on the partnerships that Starbucks has created in Europe, it could be assumed that the most suitable partner for a joint venture in Slovakia would be the Polish company AmRest.

Since I first started to write this thesis, the situation of Starbucks has changed in that the company has introduced their “Starbucks on the go” coffee automats in certain gas stations in
Slovakia (Stupavský, 2015). A couple of days ago AmRest has officially announced on their website the intention to bring Starbucks’ retail stores into the Slovak market in 2016 (AmRest, 2016c).
7 Bibliography


Abstract

# Curriculum Vitae: Barbora Burianková, BSc.

## EDUCATION

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<tr>
<th>Year</th>
<th>Institution</th>
<th>Location</th>
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<tr>
<td>2011 – 2016</td>
<td><strong>UNIVERSITY OF VIENNA</strong>&lt;br&gt;Master program, International Business Administration</td>
<td>Vienna, Austria</td>
</tr>
<tr>
<td></td>
<td>• Specialization: International Marketing</td>
<td></td>
</tr>
<tr>
<td>2006 - 2011</td>
<td><strong>UNIVERSITY OF VIENNA</strong>&lt;br&gt;Bachelor of Science, International Business Administration</td>
<td>Vienna, Austria</td>
</tr>
<tr>
<td>Sept - Dec 2009</td>
<td><strong>UNIVERSITÉ DE STRASBOURG – ECOLE DE MANAGEMENT</strong>&lt;br&gt;Erasmus semester</td>
<td>Strasbourg, France</td>
</tr>
<tr>
<td>1998 - 2006</td>
<td><strong>GYMNÁZIUM J. PAPÁNKA</strong>&lt;br&gt;Maturita (High School Leaving Certificate)</td>
<td>Bratislava, Slovakia</td>
</tr>
<tr>
<td>2004 - 2005</td>
<td><strong>HENRY FOSS HIGH SCHOOL</strong>&lt;br&gt;Rotary exchange program</td>
<td>Tacoma, WA, USA</td>
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## EXPERIENCE

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<tr>
<td>Nov 2015 - Present</td>
<td><strong>HENKEL SSC</strong>&lt;br&gt;Expat Manager</td>
<td>Bratislava, Slovakia</td>
<td>• Handling of international assignments of French and Spanish expats&lt;br&gt;• Calculation of income, allowances and cost estimations&lt;br&gt;• Preparation and delivery of transfer letters&lt;br&gt;• Communication with external providers</td>
</tr>
<tr>
<td>June – Sept 2015</td>
<td><strong>HENKEL SSC</strong>&lt;br&gt;Senior Sales and Marketing Analyst for France</td>
<td>Bratislava, Slovakia</td>
<td>• Process transfer specialist (Henkel France to SSC Bratislava)&lt;br&gt;• Penalty and cash discount administration&lt;br&gt;• Coordination of standard price set-ups</td>
</tr>
<tr>
<td>Sept 2014 – May 2015</td>
<td><strong>HENKEL FRANCE</strong>&lt;br&gt;Sales Controlling and KAM Support Reporting</td>
<td>Paris, France</td>
<td>• Penalty tracking and validation&lt;br&gt;• Cash discount preparation and annual balance verification for budget adaptation&lt;br&gt;• Customer interaction and cooperation across various teams within the company&lt;br&gt;• Cooperation with KAMs regarding the set-up of new price conditions</td>
</tr>
<tr>
<td>Jan 2013 – Aug 2014</td>
<td><strong>HENKEL SSC</strong>&lt;br&gt;Business Reporting Analyst for France</td>
<td>Bratislava, Slovakia</td>
<td>• Responsibility for execution and support of market, client and customer reporting&lt;br&gt;• Advanced data analysis activities in the area of Marketing &amp; Sales&lt;br&gt;• Close cooperation and everyday communication with the French team</td>
</tr>
</tbody>
</table>
Aug 2005 – June 2013  **MAYA (FILM & TELEVISION PRODUCTION COMPANY)**

*Assistant director for a TV show (part-time)*

*TV shows: Incognito, My favorite song, Mail for you*
- Assistance with organization of shooting on set
- Communication with director, staff and guests

Aug - Sept 2011  **AIESEC BULGARIA**

*Tourism promotion for a project “See Beautiful Bulgaria 2”*
- Documentation of travels around Bulgaria by taking pictures and writing articles about the visited places
- Preparation and participation in the organization of photography exhibitions
- Work in an international team

Aug - Sept 2010  **COMPETENCE CALL CENTER**

*Customer service representative (part-time)*
- Solving customer problems via telephone in German

July - Sept 2008  **MAYA (FILM & TELEVISION PRODUCTION COMPANY)**

*Assistant of event manager (part-time)*

*Event: Cat Girl, with life TV broadcasting in prime time of the most watched Slovak TV channel*
- Arrangement of shooting in Vienna
- Cooperation with executive producer in ensuring foreign cast
- 2nd assistant director for rehearsal and life shooting in Bratislava

**LANGUAGES**

Slovak – native

English – excellent (TOEFL iBT 104/120, exchange year in USA, semester in France, Master program in English)

German – upper intermediate (Deutsches Sprachdiplom – Zweite Stufe, Bachelor program in German)

French – upper intermediate (semester in France, 9 month work assignment in France)

Spanish - beginner

**SKILLS AND ACTIVITIES**

Driver’s license: B

Extensive experience with Microsoft Excel, Power Point, Word, SAP, Nielsen GTC, Color, HTML, SPSS

Interests: traveling, learning foreign languages, photography